

LINEHAN: Good afternoon. Hello. We're going to call the meeting to order. So I am sorry it's crowded. Well, I'm not sorry it's crowded. That's not what I meant to say. I'm sorry we don't have a bigger room. Because we're starting early, we don't have an overflow room. Once the committee hearing is over across the hall at 2:30 we'll have an overflow room. But we have to kind of just tough it out-- Nebraskans can-- until 2:30. It might even be a little later. So I'm going to ask everybody to be-- and this is even in the back-- the door is open. If we're going to have the doors open, which I would like to do, let's just make sure that it's very quiet out in the hall, OK, because sometimes when we have the doors closed and then open, it's very loud. So we're going to have-- if we're going to leave-- if we're going to let people come and go, we're going to have to be quiet out in the hall, too. So now let's start with official rules.

Welcome to the Revenue Committee public hearing. My name is Lou Ann Linehan. I'm from-- that's what I mean-- Elkhorn, Nebraska, and I represent the 39-- Legislative District 39. I serve as Chair of this committee. The committee will take up bills in the order posted. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. If you are unable to attend the public hearing and you would like your position stated for the record you must submit your written

testimony by 5:00 p.m. the day prior to the hearing. To better facilitate today's proceeding, I ask that you follow the fo-- excuse me, abide by the following procedures. Please turn off cell phones or other electronic devices. When you're ready to testify-- and this is going to be really important today. Please move to the front of the room so we can save time and not be sitting in the back when you're up next in order. The order of the testimony is the introducer, the proponents, opponents, and neutral. But today we're going to change it up. Hopefully, you all know this. We're going to go five proponents, five opponents, one neutral, then go back to five proponents, five opponents, and one neutral, hopefully, so we give everybody a chance. We're also going to-- if you're going to be testifying, please complete the green form and hand it to the clerk when you come up to testify. If you have written materials and would like to be distributed to the committee, please hand them to the page. And we're lucky-- because we start early today there was a little disconnect, so we only have one page. So please get to her as soon as you can and be understanding if she has to make copies for you. When you begin to testify please state and spell your name for the record. Please be concise. And again today we're going to limit it to three minutes so you will have two minutes on green-- Grant, is this right? Two minutes on green, one minute on yellow. And I'm going to be tough; when it's red

you're done, because other-- we want everybody that came to have an opportunity. If your remarks were reflected in previous testimony or you would like your position to be known but do not we wish to testify, there are white forms at the back where you can sign up and say your position and that will be included in the official record. Please, when you're testifying speak directly into the microphone so our transcribers are able to hear your testimony clearly. To my immediate right is legal counsel, Mary Jane Egr Edson. And to my immediate left is research now-- analyst Kate Bergquist. At the end on the left of the table is committee clerk, Grant Latimer. And with that, I would like the senators to introduce themselves. I think Senator Kolterman will be here. I'm sure Senator Groene is going to be here. Senator Lindstrom is not going to be here today, he's ill. And then--

FRIESEN: Curt Friesen, District 34, Hamilton, Merrick, Nance, and part of Hall County.

CRAWFORD: Good afternoon. Senator Sue Crawford, District 45, which is eastern Sarpy County.

BRIESE: Tom Briese, District 41.

LINEHAN: Senator McCollister is introducing a bill in another committee, so he'll be in.

GROENE: Senator Mike Groene, Lincoln County, District 42.

LINEHAN: And right now we have one page. Katie, you going to stand up so we can see you? Thank you for being here. Please remember that senators may come and go during our hearing as they may have bills to introduce in other committees. Please refrain from applause or other indications of support or opposition. I'd also like to remind our committee members to speak directly into the microphones. And we-- another reason-- microphones don't amplify our voices, we just-- it's for recording purposes and for TV. So we need to speak so people can hear us loud enough. Lastly, we are an electronics equipped committee. Information is provided to us electronically as well as in paper form. Therefore, if you see committee members referencing information on their electronic devices be assured that your presence here today and your testimony are important and is critical to our state government. So with that we will begin with LB314. Senator Briese. Good afternoon.

BRIESE: Thank you and good afternoon, Chairman Linehan and members of the Revenue Committee. My name is Tom Briese, T-o-m B-r-i-e-s-e, and I'm here today to present LB314. LB314 is a comprehensive property tax relief proposal that accesses revenue from a variety of sources and dedicates that-- the vast majority of it to increase school funding and the Property Tax Credit

Fund. Property taxes are choking off economic growth in our state. With the sixth to seventh highest residential property taxes in the nation property taxes are impeding the dream of homeownership for young couples across our state. Comprising 30 to 40 percent of a house payment, they are forcing young couples out of the housing market. The third to fifth highest agricultural property taxes in the nation are impeding economic growth in our rural areas. Ag bankruptcies are climbing precipitously. Property taxes are one of the largest line item expenses for our ag producers and contributing to the red ink in agriculture. Nebraskans from one end of the state to another are demanding property tax relief and they deserve property tax relief. And I'd like to welcome everyone to the hearing today, also. I look forward to hearing from all stakeholders, whether in support or opposition. I look forward to hearing from folks to make their case as to why this is good legislation and why they oppose something. This is the day to make your case, but it's also time for everyone to reflect on property tax relief and reform and their position on this issue. And I believe it's time for everyone, including lobbyists and politicians, to decide whether they want to be part of the solution or if they want to stand in the way of the solution. So we have to ask ourselves, how are we going to get there? We can talk about controlling spending, we can talk about cutting our way there

and many of us have bills to help us do that. But when we collect 50 percent more in property taxes and income taxes and 70 percent more in property taxes and state, motor-- local, and motor vehicle sales taxes, we have to talk a lot-- about a lot more than spending. And I believe that the responsible tax policy must do several things. It must provide fairness and balance in our tax structure. It must do this sooner rather than later, and it must contain a path forward as to how it will be funded. So we have to talk about new revenue. We aren't going to accomplish much of anything without accessing new revenue to be used to offset property taxes. So let's begin with the revenue components of LB314. I'll first noted-- note that the green copy contained a remote seller sales tax collection mechanism. As we have other bills addressing this issue the amended version deleted this provision. LB314 would expand our sales tax base by eliminating a host of sales tax exemptions and there should be a comprehensive list of those in the fiscal note and most of those exemptions and exclusions are listed on an exhibit I passed out and that exhibit indicates how many of these items are taxed in other states and to the extent known, how many states tax the item in question. And note that many of these items are service transactions and there's reasons we should be-- look to taxing additional services. First, many would suggest we're becoming a service-based economy. In the last several decades the percent

of household consumption attribute-- attributable to the acquisition of services has increased dramatically. Since the '30s goods transactions have dropped from representing two-thirds of our economy to only about one-third. This shift contributed to a contraction of our sales tax base and as one considers regressivity issues, we must also consider that services tend to be consumed at a higher rate by the more affluent among us. The ideal sales tax is a one-time tax on a retail consumer transaction. Care should be taken not to tax business-to-business transactions and it should be noted that these exemptions and exclusions contained in LB314 are predominantly consumer related transactions. And I would note that I have other-- other folks who have other bills and I have other bills also that focus on exemptions and exclusions and those bills could bring in another 15 or so categories of services. The next revenue component of the bill was originally intended to be an increase in the alcohol excise tax. We took that approach because it utilized an existing system, our excise tax, and increased it by the equivalent of about 10 cents per year. That was the intention. But because of concerns expressed to us by the craft brewers, in particular, we replaced this provision with an amendment that implements essentially an alcohol surtax of 3 percent to be collected under our current sales tax system. Numbers are somewhat hard to write about on

that, but my calculations suggest it could raise roughly \$45 million, half of what the excise tax component would have done. The next revenue component is an increase in the documentary stamp tax from its current \$250 per thousand to \$275 per thousand. Moving forward, Nebraska Revised Statute, Section 77-202 exempts from property taxes property owned by various categories of charitable institutions. LB314 removes the exemption for property owned by fraternal benefit societies. Many types of tangible personal property are subject to the property tax in Nebraska. The Personal Property Tax Relief Act of 2015 exempts from property tax the first \$10,000 of valuation of tangible personal property in each tax-- in each tax district in which personal property returns are required to be filed. The state then reimburses each county for the loss of revenue from these. LB314 will eliminate that exemption. LB314 also calls for \$1.50 increase in the cigarette tax. Nebraska currently has a tobacco tax of 64 cents a pack, which is about fortieth in the country. This bill will put our tax at \$2.14 a pack. And I know that 17 other states along with District of Columbia, Puerto Rico, and Guam have cigarette taxes are two bucks or higher. And the intent of this bill is not to alter behavior of our citizens. The intent of this bill is to raise revenue to be used to offset property taxes. And I would note, though, that polls suggest overwhelming support for increasing

tobacco taxes. And I would suggest that support would be off the charts if that increase was tied to property tax relief, as done in LB314. And note that this bill also includes e-cigarettes in the definition of tobacco products. The bill also raises the tobacco tax. LB314 will also instate a high income earner surcharge of 7.82 percent on the state income tax liability of those having federal AGI in excess of \$250-- \$250,000 for individual, \$500,000 per couples. As an example, one with a \$500,000 AGI might pay a surcharge in the area of \$2,000. I would suggest that the property tax relief enjoyed by a high income earner pursuant to this bill would outweigh the surcharge and this surcharge can help deflect regressivity concerns from some of the folks out there. The Nebraska sales tax rate currently sits at 5.5 percent. This bill would raise it to 6 percent. I note that Kansas has a 6.5 percent rate and Iowa sits at 6 percent. And I do note that a survey across the 41st District last fall, in that survey a substantial majority of respondents supported a 1 percent increase to be used for property tax relief. And I've seen similar surveys, for example, from Reform for Nebraska indicating overwhelming support for a sales tax rate increase to be directed towards property tax relief. So we're essentially doing what Nebraskans are asking us to do by this provision, in my view. LB314 will also reinstate the alternative minimum tax. The AMT is designed to ensure that

high income households pay a minimum level of tax by eliminating several deductions enjoyed by average taxpayers. Nebraska hasn't utilized AMT since January of '14 pursuant to LB306. LB314 would reinstate that alternative minimum tax in Nebraska Revised Statute 77-2715. LB314 would repeal, repeal the special capital gains exclusion which originated in LB775 and is found in Nebraska Revised Statute 77-2715. It's my understanding that no other states offer this type of exemption. The elements of this exclusion are a special interest carve out that benefits only a small fraction of Nebraskans. And you have to ask yourself, does it make sense to offer a loophole unique to Nebraska when we're looking for revenue to offer-- offset some of the highest property taxes in the country? And under our statutes a Subchapter S or limited liability company can exclude from AGI income not derived from Nebraska sources, so income that is not apportionable to Nebraska is not assessed here and goes untaxed unlike, for example, wage income or sole proprietorship income or partnership income from other states that ends up being taxed. It would appear that this exclusion is almost unique to Nebraska. We had a pretty lengthy debate on that yesterday and I think we heard some good testimony on that. And, obviously, folks will oppose the elimination of this exclusion. But, again, we have to ask ourselves, does it make sense to offer a special interest loophole hardly found elsewhere when we're trying to

fund a reduction in our nearly nation-leading property tax burden? LB314 would eliminate all itemized deductions with the exception of medical expenses, because we increased our standard deduction last year with LB1090, fewer filers are expected to itemize. This will tend to impact some of our higher income filers. The bill also sunsets a new market tax credit. The New Market Job Growth and Investment Act is found at Section 77-1101. The act allows individuals, various entities to claim nonrefundable, nontransferable tax credits for an investment in a qualified community development. And so, so those are essentially the revenue components of the bills. So what are we going to do with that revenue? We're going to direct it towards property tax relief. And how are we going to do it? To start off with, though, we would increase the earned income credit from its current 10 percent of the federal level to 15 percent of the federal level. This is a proposal in an effort to reimburse low-income folks for their additional sales tax outlays. The earned income credit is a refundable tax credit for low- and moderate-income working people and it tends to target workers raising children. So the size of one-- of one's credit depends on their income, marital status, number of children. It has been shown to increase work force participation and here the increase provided by LB314 can alleviate again some of the regressivity concerns that raising the sales tax rate can generate. Eighteen states

and the District of Columbia have some sort of property tax credit that covers renters who pay property taxes indirectly through higher rents. The bill provides for a renter's credit to provide renters some measure of compensation for their property taxes that they ultimately pay. It would help to address some of the regressivity concerns also and the credit would be at 2 percent of the rate paid up to a total of \$90 annually. The bill would also fund the 20 percent allocated income tax distribution to our schools. In 1990, LB1059 sought to achieve, among other things, property tax relief by shifting the burden of K-12 education from local to state sources. Today statute provides that the allocated income tax rebated back to schools is only 2.23 percent. This would-- bill would increase that number back to the original 20 percent. Section 79-1127 of our statute requires schools to provide for special ed programs. The state was once statutorily required to fund 90 percent of these costs. The statutory requirement dropped to 90 percent for Level III services and 80 to 85 percent for less than Level III services. Then those that came before us saw fit to drop this requirement from statute. It's now at simply whatever we appropriate. So now provide SPED reimbursement for only 48 percent of the excess cost. This bill would increase the state SPED reimbursement to 80 percent. The bill also requires NDE to oversee a comprehensive review of the financing of public elementary and

secondary education in Nebraska. Preliminary draft is to be submitted by December 31 of 2019. Why would we include a study component to this bill? Because on average 60 percent of property taxes in Nebraska go towards funding K-12 education, in some districts it's 80 percent. We're essentially last in the country in the percentage of K-12 education funded by the state, essentially first in our reliance on property taxes. This study could be moot if we can achieve structural changes in education funding pursuant to some of our other bills that are going to be before this committee and the Education Committee and the Legislature. And I think that should really be the goal. But in the event that we don't achieve structural changes to education funding this year and in conjunction with the work by-- done by Senator Groene and Senator Friesen and others, a study like this can help move us off center in our efforts at educa-- in our efforts at structural reform of education funding in Nebraska. As you will hear from some of the testimony following, there is broad-based bipartisan support for what this bill does. But more importantly, I believe Nebraskans themselves will overwhelmingly support this approach to property tax relief. It provides immediate and substantial property tax relief. It's a responsible approach. It doesn't kick the can down the road. And obviously there's going to be some opposition testimony. There'll be some that want to preserve tax breaks, exemptions,

whatever, and I wel-- truly welcome their testimony. That's what we're here for. We need to hear from everybody. And there may be some trying to build-- vilify-- villainize this as a tax shift. But you got to ask yourself, doesn't any tax reform typically entail a shift either directly or indirectly? And there will be some who will try to call this a tax increase. But note that the overwhelming majority of the dollars raised here will go directly back to the property taxpayers. Raising money to go into the General Fund is a tax increase. This is not a tax increase. And as the naysayers and special interests try to pick this thing apart you got to ask yourself, how else are we going to deliver the property tax relief Nebraskans are demanding in a responsible way? The only way to do it is to raise revenue, period. And I will note that other bills would make structural changes to education funding in Nebraska. And, and we should note the different approach in this bill versus the other bills. This bill uses existing mechanisms to provide-- to provide the relief. It's simple. I believe it's effective. But it could also work in conjunction with any of the other concepts that we're going to be talking about. Thank you. I'd be happy to answer any questions and I will be here for closing.

LINEHAN: Thank you, Senator Briese. Are there questions from the committee? Senator Crawford.

CRAWFORD: Thank you, Madam Chair. And thank you, Senator Briese.

I wondered if you had calculated like a typical amount that would go back to a property tax owner of say a \$100,000 house or if you had any estimates that you had created that you could share with us.

BRIESE: My original thought was roughly 20 percent.

CRAWFORD: OK.

BRIESE: In view of the latest fiscal note the percentage has probably dropped off somewhere.

CRAWFORD: OK. Thank you.

BRIESE: Thank you.

LINEHAN: Thank you, Senator Crawford. Other questions from the committee? Senator Groene.

GROENE: On all these exemptions, how did you-- did you-- how did you pick those you crossed off and those you kept?

BRIESE: Well, it was kind of a joint effort there in trying to determine which ones maybe has-- have less negative impact on low-income folks. We want to target things that will have nega-- very little, if any, impact on our business community, obviously. And like I said, I've got other bills that-- I've got

a bill that essentially targets items that are not exempt in Iowa. And that bill itself would add another 12 or 13 items to that. And I have another bill, too, that would add maybe 15 or 16.

GROENE: How about newspapers?

BRIESE: Newspapers? Did not include that.

GROENE: You know time?

BRIESE: Pardon?

GROENE: When I go to Colorado or Kansas I pay sales tax on a newspaper.

BRIESE: Yeah. And a lot of states do, a fairly good number do. That could be included if the committee saw fit to do that.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, thank you.

BRIESE: Thank you.

LINEHAN: Proponents.

JOHN HANSEN: Good afternoon, Madam Chairman and members of the Revenue Committee. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n, I'm the president of Nebraska Farmers Union and I am the president of Nebraska Farmers Union, but it is my job today to describe the process that we went through for the Nebraskans United for Property Tax Reform and Education Coalition that did a lot of the background work that handed our proposal off to Senator Briese. It is now his bill. It is his to do with as he chooses. But this coalition has been working together for two and a half years. We have gone to school on the state tax system. We have looked at revenues. We've looked at exemptions. We have looked at all of the things that we need to do in order to be able to-- and I should give you a copy. I realized my stack was too tall. So this process has, has brought together education, agriculture, and other stakeholders. And we have done kind of a top-to-bottom look at our state tax system and clearly we, we have been willing to tackle a lot of the longstanding issues. We have needed to update and broaden our sales tax base. It has been narrow for a long time. It needs to reflect the growth of services. So we have looked at revenue. We have looked at exemptions. And so while the-- the size of this proposal is large, the incremental shift in the last 30 years from income and sales to property, a little bit at a time, year after year, where we less than fully fund what the TEEOSA

formula calls for, has resulted in somewhere in the neighborhood of about a billion dollar shift. And so that has brought push to shove. It-- this issue is the number one issue across the state. And so if you take a look at the amount of revenue that has-- that the state has lost in fiscal '16 to '17 with major tax changes since 2006 you come up with a number that looks like about \$754 million. So it's time to revisit our revenue streams. We need a more fair and balanced tax system. We need to adequately fund K-12 education and we must reduce our overuse of property taxes. And we thank you for your kind attention. There is going to be a lot of proponents coming up later who will get into the nuts and bolts of different parts of the background and the research that we have done as a coalition in this effort. Thank you for your attention.

LINEHAN: Thank you, Mr. Hansen. Are there questions from the committee? Seeing none, thank you very much.

JOHN HANSEN: Thank you very much.

JEFF UHLIR: I was hoping she'd have her paper passed out before I said anything.

LINEHAN: That's OK. You can go ahead. She's very quick.

JEFF UHLIR: OK. Yeah, I'm passing out-- it's-- I don't know if you guys ever get the opportunity to look at actual--

LINEHAN: We need your name.

JEFF UHLIR: Oh. Jeff Uhlir, J-e-f-f U-h-l-i-r. I don't know if you guys ever get to act-- look at actuals. I included it in the information you're getting. It's what the crop insurance costs-- it's actually photocopies of my federal crop insurance. Highlighted is the areas of the acres in bushels and there's kind of a history. I started farming since 2016. We've been on the same farm since 1870, trying to figure out how to keep it. Valuations go up about 300 percent every ten years. And you can look at what I produce. It's the actual off my federal crop insurance. I included on the back pages of that, the handwritten, that is my values and property taxes. If you wanted to look it up it's F county legal. And then I have what I paid for taxes per acre in 2018 and compared to 2006 at the bottom. And then I know some guys have talked about the exemption credit and I added that-- I included this-- in this, too. And then towards the back there's a page with some highlights on there and the one that I have starred, it talks about taxing based on production. And there's, there's no part of anything that's ever has to do with the rainfall. If you have the best soil in the world, you don't get any rain, you're not going to grow anything

on it. And this is some legislative verbiage I found about taxing as far as production. And assessor said they don't use that, won't use that. I don't know why, but, but yeah, if I was king for a day we'd go to about 3 percent sales tax, do away with property taxes because nobody can check on your taxes and understand it. I've been told, you know, you got to look at your taxes but go over them. If you don't understand it, how do you go over it? You get frustrated, forget it, and you pay your taxes if you can afford to. I see my yellow light is on. I'm done.

LINEHAN: Thank you. This is very helpful. Are there questions from the committee? Yes, Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Do you know if your school district that you're in has any equalization aid or what percent of your school districts are funded with property taxes?

JEFF UHLIR: Ninety-eight and a half percent of our school district is funded by rural property. OK? And we're outvoted by the 1.5 percent.

FRIESEN: So do you know what percent of your school district is funded with ag land?

JEFF UHLIR: Ninety-eight, ninety-nine percent. That's our school district. We're in the Unified District 1. So you'd have to break it down with Orchard, Clearwater, Verdigre, but the time when I did my research the rural people paid 98.5 percent of the yearly budget of our school.

FRIESEN: What are your taxes average per acre?

JEFF UHLIR: I have it-- I have it included in that sheet, the handwritten stuff. So I have three parcels. The 480 is in the school district that I live in. If you look at the acres, I believe that is on the first page of the handwritten stuff. And it has---

FRIESEN: OK. There has been a substantial increase, I take it, over the last ten years.

JEFF UHLIR: Yeah. In 2006, I paid \$8.54 an acre. In 2018, I paid \$17.20. And I don't produce any more, as you can tell by my federal crop insurance stuff that I included. Thank you.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Thank you very much for being here.

JEFF UHLIR: Thank you. Thank you for the job you guys do as well.

LINEHAN: Thank you. Next proponent. OK, go ahead.

AL JUHNKE: Thank you. Madam Chair and members of the committee, my name is Al Juhnke, A-l J-u-h-n-k-e. I'm the executive director of the Nebraska Pork Producers Association. First, I'm here to lend support, of course, for LB314 on behalf of our organization. We raise livestock and we do a lot of what we hope is good economic development in our rural areas. We also want to thank Senator Briese. We've been around the halls of the Capitol the last few years and we understand like everyone how difficult this has been so far to put something together. But Senator Briese has continued to work over the last couple of years to get a lot of ideas on the table and I see that in the committee, too. Senator Crawford, Senator Friesen, Senator Groene, and Madam Chair, yourself, we've all had conversations on what we can do to address this. I don't know if there's any one answer, but I think there's pieces of all these bills that will be an answer I hope coming out of here, because we really are struggling out in rural areas on our farms. But I also live in a house in Yankee Hill Township. My assessment went up 17 percent last year and my taxes keep going up. We rent a building on O Street in Lincoln. Those commercial properties in Lincoln-- I've

talked to the building owner. He's not excited about what he's got to pass on to us in property taxes. So Senator Briese does a nice balanced approach here. Senator Briese pays for it, which is important. We've asked people-- I think there's a lot of ideas but if you don't like your idea, tell us a different one. And Senator Briese is willing to listen to that. And I think you all are, too, to come to a consensus. We know we need money. Property tax buy-downs cost money. So there's also some unique things in this bill. One of them I just want to bring to the table because as you look at pieces of these different bills that might work, one thing that he brought that was unique here was a renter's credit. I come from Minnesota originally and I can tell you back when I was in college in Minnesota in the early '80s I got a certificate of rent paid, applied for a renter's credit, and got a refund every year based on my income. That concept is in here, stolen, or borrowed or looked at in Minnesota, but it's in there because Senator Briese listened last year. A lot of our inner city folks with lower income renters or even our regional center folks that have a lot of apartment buildings wondered what's in it for their apartment owners. This bill addresses what's in it for the apartment owners. So, again, we give Senator Briese a lot of credit for listening, trying to craft something and put it together and bringing groups like agriculture, education, and other

nonprofits together. Together we need to have this conversation, we can't just say no all the time. We have to say, yes, we can do it and here's a great idea on how we might accomplish that. So with that, Madam Chair, I'm just here again to say, yes, to Senator Briese's bill on behalf of the pork producers and our barns and our farm families out across rural Nebraska.

LINEHAN: Thank you very much, Mr. Juhnke. Are there questions from the committee? Seeing none, thank you very much.

AL JUHNKE: Thank you, Madam Chair and members of the committee.

JACK MOLES: Good afternoon, Senator Linehan and members of the Revenue Committee. I'm Jack Moles, that's J-a-c-k M-o-l-e-s. I'm the executive director for the Nebraska Rural Community Schools Association, which I'll also referred to as NRCSA. NRCSA is an organization of 199-member public school districts and educational service units representing the interests of over 77,000 rural communities or rural public school students. Today I'm testifying not only on behalf of NRCSA, but also on behalf of the Nebraska Council of School Administrators. I'd like to testify in support of LB314. Our members recognize and appreciate Senator Briese's work on developing a plan in which real property tax relief is provided while at the same time provide-- helping to make sure that public school districts are

funded in a more equitable and fair manner. That he was able to do this while working with at least ten ag groups, a similar number of education groups, as well as several other groups is a remarkable accomplishment in my mind. NRCSA and NCSA have both been a part of that coalition that has worked with Senator Briese on this bill. This is a complex bill. In my short time as executive director of NRCSA, I keep hearing the term "it's a heavy lift" in reference to what you deal with as legislators. And this bill is a heavy lift. We, we do get that. However, the fact that-- is that we have 175 out of 100 or 244 public school districts receiving no equalization aid. One hundred and sixty-seven of those one hundred seventy-five school districts are Class C and D schools, as identified by the Nebraska State Activities Association. This means districts have had to put more and more revenue demands on the backs of local property owners, especially our ag land owners and that in itself is a heavy lift, one that we need to lighten. LB314 gives the Legislature a chance to do that. I'd like to very quickly touch on just a few aspects on the education side. First, is special education. Bringing us up to 80 percent reimbursement on special education would be a huge benefit to school districts. The statewide average is down to about 50 percent. I give you a list of several school districts and the percent their SPED costs have grown in the last ten years, both small and large schools.

These costs are often very, very not-- they're not controllable. And the federal mandates and the maintenance FAFSA requirements have made it difficult for schools to lower their SPED cost, even when it makes sense to do so. The other thing is the state reimbursement for SPED cost has dropped over 80 per-- from 80-- over 80 percent to 50 percent in recent years. Thus, those costs are pushed further to the local property owner. We'd also support the 20 percent growth and allocated income tax rebate. As I see my time is closed I will stop there and answer any questions you might have.

LINEHAN: Thank you very much. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chair Linehan. So I remember back when we had kids in school and then that's when I think the federal government started funding the SPED program and they, they, I think, I believe they started at 80 percent.

JACK MOLES: Actually, I think was a little bit higher, probably up to 90.

FRIESEN: So I just-- I remember back in the day it seemed like there was a rush in the school district then to kind of identify as many special needs problems as they could possibly identify, because it just brought in more money. And so if you say it's

going to be 80 percent again are we risking, you know, running the risk that we're identifying students just, just to get funds versus actually to solve a problem?

JACK MOLES: I don't believe that. And the reason is, because you're not 100 percent funded. We-- the school districts still have to make up for whatever isn't funded. Right now it's 50 percent or a little bit more than 50 percent, actually.

FRIESEN: But if a student wasn't identified as special needs at all, there would be no funding.

JACK MOLES: Right.

FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Thank you, Chairman. Of the 50 percent you get now, how much is that federal?

JACK MOLES: I think it's-- don't quote me, but I think it's around 17 percent, something like that.

GROENE: The other comes from the \$205 million that the state puts in?

JACK MOLES: Yes.

GROENE: Would this special ed money be considered a resource? It isn't now.

JACK MOLES: I don't believe that it would be, no.

GROENE: So this would be money given you, unaccountable, that you would lower the property tax rate?

JACK MOLES: That-- the way I see it, you know-- the thing I've been-- I hear so much people talking about the property tax fund, but I think the other two parts of it have just as much of a chance to help lower property taxes also.

GROENE: I didn't ask you that.

JACK MOLES: OK.

GROENE: I asked you, would it force you to lower your property tax rate? [INAUDIBLE.]

JACK MOLES: I believe it I would-- I wouldn't believe it would help a school district do that. I don't think it would be dollar for dollar.

GROENE: But it's not considered a resource.

JACK MOLES: No. Not, not that I understand.

GROENE: All right. The allocated income tax is.

JACK MOLES: Right.

GROENE: So that would force you-- and what's the SPED aid is local receipt, \$122 million the second year.

JACK MOLES: I'm sorry?

GROENE: Special education-- I'm looking at the fiscal note hopefully you had. Aid as local receipt in the second year '22-'23-- the third year there's another \$122 million. You know what that is?

JACK MOLES: I'm not sure on that, Senator.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? I'm going to ask a couple on special ed, too. So is this 80 percent just state dollars or is that supposed to be 80 percent including the federal reimbursement?

JACK MOLES: That would include the federal reimbursement. It would be 80 percent funding.

LINEHAN: OK. So we'd just take up-- so it would include that. I don't think the feds ever fully funded it. That's part of the problem.

JACK MOLES: No. No. I think--

LINEHAN: They promised to and then never-- they were going up for a while but it's now gone flat.

JACK MOLES: I think their target was actually in the 40 range maybe.

LINEHAN: Right. And they never even got close to that. It seems like I have another question, but I don't know where to find it. So any other questions? Thank you very much for being here.

JACK MOLES: Thank you.

TIFFANY MILONE: Good morning, Chairperson Linehan and members of the Revenue Committee. My name is Tiffany Friesen Milone, T-i-f-f-a-n-y F-r-i-e-s-e-n M-i-l--o-n-e, I'm policy director at OpenSky Policy Institute. We are here today to testify in support of LB314 because it is a fiscally responsible solution to the state's high reliance on property taxes. It provides meaningful reform while protecting state budget priorities like healthcare and K-12 schools. LB314 will provide a significant injection of funding into the property tax credit program to reduce property taxes immediately and give our state the opportunity to reduce-- review our school funding system in the long term. Many of the revenue "pay fors" in LB314 are sound

public policy. This bill broadens the sales tax base to reach more services, treating them more like goods, most of which are already taxed. LB314 is paid for by eliminating loopholes and tax breaks for special interests and increases taxes on high income Nebraskans. The state's tax system is regressive and so the highest earners in the state tend to pay a lower effective tax rate. Additionally, the high-income earners receive large tax cuts as a result of the Federal Tax Cuts and Jobs Act and Nebraska's response to that act. Taking a look at the big picture we support LB314 because it accomplishes the following: a significant influx of money into the Property Tax Credit Fund; increases the allocated income tax to 20 percent as originally envisioned in TEEOSA, helping property taxpayers in nonequalized school districts; puts more state funding toward special education expenses, helping property taxpayers in both equalized and nonequalized school districts; implements a renter's credit ensuring that nonproperty owners also share in decreased property tax levies; increases the state AITC to offset increased sales taxes for low-income workers; requires a school funding study so we can fix property taxes systematically; and pays for these investments in education and property tax reductions with replacement revenue. We do have concerns with some of the components in LB314. In particular, we don't generally support increasing the sales tax rate because that

rate tax will fall hardest on low- and moderate-income Nebraskans who tend to pay a higher percent of their income in sales tax. However, the bill includes an increase in the earned income tax credit to offset that impact as well as the renter's credit to ensure that some of that property tax relief flows through to nonproperty owners. In conclusion, we all want our state to have a strong economy comprised of thriving communities across Nebraska. We appreciate that LB314 recognizes the importance of both agriculture and education on Nebraska's economy and provides a path forward to restore balance in our revenue streams and in the way we fund our state's top priorities. I'd be happy to answer any revenue questions on this or on LB497, which is coming.

LINEHAN: Thank you very much. Questions from the committee. Yes, Senator Groene.

GROENE: Thank you, Chairman. On the Property Tax Credit Fund.

TIFFANY MILONE: Yes.

GROENE: Is there anything in there that mandates the state to appropriate the existing \$224 million or, or that could disappear or is this on top of that?

TIFFANY MILONE: I believe-- I believe the estimates were intended to be on top of that. I don't think this addresses the existing appropriation.

GROENE: Do you know if it's written that it's-- that, that-- the Appropriations Committee could say, well, we appropriated \$300- and-some million. That takes care of our commitment of \$224 and, therefore, this is net. Are you anticipate-- are they anticipating it's \$331 million on-- yeah, \$378 million on top of the \$224?

TIFFANY MILONE: I believe that was the intent.

GROENE: I'll have to read it to see if it-- I thought maybe you'd read it. I haven't read it.

TIFFANY MILONE: I have read it. I, I, I believe that it's worded correctly but I also would like to read it again to double check before I commit to that.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Are there questions from the committee? Do you want to explain this? Did you hand this out?

TIFFANY MILONE: Yes. So that is the-- that's a breakdown of the district-by-district impact of bringing the allocated income tax up to 20 percent.

LINEHAN: So what clarification-- so the ones that shows no difference, there, there, they wouldn't because they're already getting equalization aid. So if you used your allocated income tax would--whatever--cancel out your equalization aid?

TIFFANY MILONE: Yes.

LINEHAN: So there's no difference for the equalized schools?

TIFFANY MILONE: There would be for some equalized schools. I believe we would go from having I think 8-- no, 16 schools would go from equalized to nonequalized.

LINEHAN: So one of the concerns in this would be Norris--

TIFFANY MILONE: Or I mean-- I'm sorry.

LINEHAN: Go ahead.

TIFFANY MILONE: No, go ahead.

LINEHAN: So I look at it, Norris School District was here yesterday and they're one of the schools that gets kind of caught in the middle. They're not large enough or poor enough to

get a lot of equalization aid, but they're not small enough to get a large-- a higher than average refund for their property tax credit. So and I think Seward would be another one, York, but according to this handout this does nothing for Norris.

TIFFANY MILONE: In terms of the AIT, there are also the elements that have to do with special education. So those are not taken into account on this.

LINEHAN: Right, right, but just on the-- on the-- way we-- it still wouldn't help them. They wouldn't be equalized and they wouldn't get any money. I am confused by that I guess.

TIFFANY MILONE: Well, Connie [INAUDIBLE] will be testifying later and she'll probably have better answers on the ed side.

LINEHAN: OK.OK. That's fine. Thank you very much. Are there other questions from the committee? Thank you very much for being here. Now we will go to the opponents.

BRYAN SLONE: Chairman Linehan and members of the Revenue Committee, it's a privilege to be here today to testify on both LB314 and LB457. With respect to LB457, I'll also be testifying on behalf of the Omaha and Lincoln Chambers. We don't have a disagreement with, with Senator Briese's comments that property taxes are indeed--his words--choking, I would say making the

state uncompetitive. We also believe that our tax system in general is making the state uncompetitive. We have some of the highest property taxes in the country. We also have some of the highest corporate taxes in the country and some of the highest income taxes in the country. And there's no question that some sort of fundamental tax reform is necessary in this state. Our disagreement with Senator Briese in terms of LB314 is simply whether the lead in attacking the problem is simply raising more revenues and raising sales taxes and income taxes on other businesses and consumers or whether the initial priority should be looked elsewhere in terms of some of the other proposals that are going to be before this Legislature this session. And within that context, how do we more broadly make this state competitive in whatever we do in any tax reform-- comprehensive tax reform? The problem with leading with revenues is we've been essentially doing that since 1968 when we introduced the sales tax. As I said yesterday when I was before the committee, I'm a-- I'm a proud graduate of Gering High School in class of 1975. In those days, state aid to schools was around-- it was under \$50 million, between \$45 and \$50 million. Today that state aid number is well over a billion dollars financed through primarily sales tax and income tax. And today the number of students we have in public schools K-12 is actually less than when I graduated in 1975. And so we spend a billion dollars of sales

tax and income taxes over the years in this state trying in good faith to solve the property tax issue. And I would agree with Senator Briese, the property tax issue today--particularly in an era of low commodity prices--is as difficult as it's ever been. And given that track record it's hard to say that simply raising more taxes to promote more spending is, is going to solve the problem. And so from a business standpoint looking what are the root causes, the root causes of where we are today with property taxes in many respects are speculation in agricultural land has kept land values very high in a time when profitability has been very low, and that, that has its consequences. Two, local tax bases in, in local communities and local school districts is more and more in many of our rural counties dependent on the ag economy as other types of business and the diversification of business in those communities has decreased over time. Third, the mathematics of our state aid to education--

LINEHAN: We can ask you a question.

BRYAN SLONE: Sorry.

LINEHAN: That's OK. I know it's hard. Are there questions from the committee? Yes, Senator Friesen.

FRIESEN: So I, I mean, I, I get where you're going a little bit. And, you know, we have-- we are spending more on education than

we've ever spent. But maybe you look at how it's distributed also. I mean, looking back, I mean, do you think if, if the school aid formula would have been addressed ten years ago we would be here today, because we had that huge shift. And recognizing that, I mean, could we have addressed it in a different way? And I know it's looking in hindsight, but we do spend more on education and, you're right, we have less kids. Why is it we're spending more money and what, what is the problem?

BRYAN SLONE: Yeah, too, and I'm guilty of a red light violation and so three and four-- thank you, Senator Friesen. Three was going to be the mathematics of the formula has to be consistently monitored and retuned because over time it's pushed more and more funds away from rural school districts. And fourth, without any, any sort of management of the process around local budgets the local budgets have just continued to eat up the increase of, of taxes and so if we're really going to address this problem, it really needs to start with at least a look at the formula on state aid. It needs to look at, at how we manage local budgets that the property taxes fund. It needs to look at how we diversify the economies and actually grow in rural areas. And it needs to start with those three things along with what other revenue forces are out there that are new

without raising new taxes? And clearly one of those is the Internet sales tax legislation this year and that should be a priority. And that should be pushed along with the enforcement of that to, to use the revenues that are there first. The last-- the last source, from our point of view, should be raising new tax revenues that would have a detrimental economic effect and offset what we're trying to do here.

FRIESEN: So did you-- you alluded to it a little bit, that there should be some savings in property taxes if we would consolidate services, things like that. And we need to be looking at some of those issues also.

BRYAN SLONE: Yes. As a high tax state already and having some competitive issues with being a high tax state, it's important that we become more efficient in terms of how we spend our money to solve this property tax issue.

FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Are there other questions? Senator McCollister.

McCOLLISTER: Yeah. Thank you, Madam Chair. And thanks, Bryan, for being here.

BRYAN SLONE: Thank you, Senator.

McCOLLISTER: Senator Briese's LB314 is-- has various components in it. Have you studied LB314 to know what those various components are?

BRYAN SLONE: I know roughly what those components contain. I'm not familiar with the most recent set of amendments and I apologize. Those were fairly recent, so I didn't have a good chance to review those.

McCOLLISTER: Are there any of those components from what you reviewed earlier that you like better than others or don't like?

BRYAN SLONE: Hey you, that's a Hobson's choice, Senators. Until--and I think this would be clearly the position of the State Chamber--until the spending efficiency issues, the economic growth efficiencies, and, and the root causes of property tax growth have been dealt with, and only then, would it be appropriate to make comment on potential revenue sources if there were a gap. But at this point, we haven't begun to do--in this legislation--to address those. I will note, in Senator Friesen's legislation that he does address-- start to address some of the, the budgeting and management issues in that and, and we would-- as does Senator Groene in his approaches to taking a look at the school aid formula. So I think those have

to be addressed before we ever put before Nebraska's taxpayers-- who are already overtaxed--yet more taxes.

McCOLLISTER: And looking at the sheet that I'm reviewing here, you know, elimination of following sales tax exemptions. And Senator Briese came up with a total of about a hundred million dollars on those exemptions. Any, any thoughts on that?

BRYAN SLONE: Every sales tax exemption has a consequence. And Senator Briese was, was noting in his, his response to the committee-- he tried to be careful to, to pick those things that he felt had the least consequence. But every sales tax exemption has a consequence of some sort to some business and some industry. And so to that extent it would be preferable to, to start with the root causes of what gets us in this, because we've already proven that adding sales tax revenue over the last 40 years has not solved our property tax issue.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee. Senator Groene.

GROENE: Do you see any cost controls at all in his bill?

BRYAN SLONE: In Senator Briese's bill, no.

GROENE: Give me a hypothetical. Now we're going to pay 80 percent of the special educa-- special needs. I can see a lot of cabs going to Munroe-Meyer now with-- that aren't going now. Very expensive. But we're going to pick up 80 percent of that without being included in their budget limitations at all. It looks to me like a huge, huge increase. I mean, what's your opinion?

BRYAN SLONE: My sense is that as we take a look at, at how we're funding K-12-- I want to be clear that we have schools in this state that do an excellent job of using the resources they have and particularly with some of the mandates they have. And this is an area that--

GROENE: I don't disagree.

BRYAN SLONE: And we have some schools who do less well. And whatever we ought to-- whatever we do in this regard ought to reward the schools who really efficiently use their resources to, to the best case of each of those students. And we should reward students-- schools who manage their funds well.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. One, one question came to me when you were referring to the revenue portions of it. And I, I, I don't want to put you on the spot because you weren't here probably at those times, but in the past the chamber has supported numerous bond issues, which pushed up property taxes and now you oppose revenue sources. But at the same time when it, when it pushed it off onto property tax owners, the chamber was always willing to, to push those issues. Is there a difference? And do we have to look at things differently when we start looking at the process?

BRYAN SLONE: Can, can I claim to be the new kid on the block, Senator?

FRIESEN: Yeah, you can. I said, [INAUDIBLE].

BRYAN SLONE: That would be terrific. What I would say about that is, is again-- and it's sort of like my response to Senator Groene's-- it's hard to always generalize. So I live-- I don't live in Lincoln, I live near Bennington. And I see what's going on in Bennington and the massive growth in Bennington. And were Bennington to, to say we need to build some schools, I would understand and believe it. So it's hard to push these-- it's hard to respond directly with a cross-state answer on that. There are times where school bonds are needed. I do think that

voters need more information around school bonds as a general rule.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Are there other questions from the committee? Seeing none-- did you-- I'm sorry. Seeing none, I think you forgot to spell your name.

BRYAN SLONE: I am sorry.

LINEHAN: That's okay, I forget to tell you.

BRYAN SLONE: Can I put "Newbie" on that one as well?

LINEHAN: No, you can't.

BRYAN SLONE: OK. My name is Bryan Slone, B-r-y-a-n S-l-o-n-e, I'm the president of Nebraska State Chamber of Commerce.

LINEHAN: Thank you very much. Next opponent.

KATHY SIEFKEN: Good afternoon. Senator Linimin-- Linehan and members of the committee, my name is Kathy Siefken, K-a-t-h-y S-i-e-f-k-e-n, executive director of the Nebraska Grocery Industry Association here in opposition to both LB314 and LB497, which we believe are tax shifts. We're specifically opposed to the removal of the sales tax exemptions on any and all food

products, including beverages, and the increase in excess-- excise taxes on alcohol and tobacco. Regarding the handout that's being passed out, document number one, list by category the tax increases that concern us. Tax levels in surrounding states are also listed to give you an idea of where Nebraska falls competitively in relation to other states. This tax shift pulls millions of dollars out of the pockets of Nebraska consumers. The reduction in disposable income will result in fewer dollars to purchase food. With local sales tax added it will decrease our purchases by 7.5 percent. USDA reports that a family of four will spend between \$200 and \$250 per week for food consumed at home. Taxing food will cost families approximately \$15 per week. Those dollars will buy a lot of food as shown in photo number two: bananas, milk, beef, a loaf of bread, and a dozen eggs. That's food that will go a long way to for-- to feed a family of four. The food industry realizes a net profit of 1.5 percent per year and losing 7.5 percent of our business will be difficult to recover. Carving out specific items, such as candy, soft drinks, and bottled water is not a simple process. Streamlined sales tax requires that we use national definitions so we're in line with other states' definitions in order to collect Internet sales tax. Document three shows the difficulty in determining what food should and should not be taxed. The labor involved in this process will be

debilitating for small retailers and even the expensive databases that list taxable and nontaxable items only include 50 percent of the taxable products, leaving retailers to a guessing game of what to tax and what not to tax. In addition to the issues described, we'll have border bleed that compounds the impact of taxing food and food items. That will be addressed by Ted Stessman who will immediately follow me. In summary, we believe that this proposed massive tax shift will cause harm to consumers and businesses. It doesn't make any difference if the product is food, fuel, tobacco, or alcohol. If people can buy it cheaper elsewhere they will travel to take advantage of lower prices which will decrease the taxes collected in Nebraska. I would happy to be-- I would be happy to answer any questions. Thank you.

LINEHAN: Thank you. Are there questions from the committee?
Senator Groene.

GROENE: Thank you. Every grocery store sells a lot of-- a lot of items that are taxable, right?

KATHY SIEFKEN: Yes, they do.

GROENE: Kitchen utensil aisle. Are any items that are edible now or potable now taxed at all?

KATHY SIEFKEN: No, they're not.

GROENE: Not anything?

KATHY SIEFKEN: No.

GROENE: Soda pop or--

KATHY SIEFKEN: Well, prepared food-- prepared food is taxed, but soft drinks, candy-- and the definitions that are set out in the handouts are not taxed.

GROENE: So if I go into Hy-Vee and I go in their food court and I buy a soda off of the fountain, I pay tax [INAUDIBLE].

KATHY SIEFKEN: That's correct, because it is part of the restaurant.

GROENE: If I go back on the aisle and grab a six pack of Pepsi, I'm not taxed. Is that correct?

KATHY SIEFKEN: That's true, yes.

GROENE: Do you think that's correct?

KATHY SIEFKEN: It's the definitions that we live with as a result of streamlined sales tax. And while it may be confusing to some people, we are used to it. We work with it and it works.

GROENE: And computer programs are easily changed and if we add certain items that your scanner could pick it up. Is that not correct?

KATHY SIEFKEN: If you are a large grocery store and you can afford the latest and the greatest in a point-of-sale system they could-- they could program, but the bulk of our grocery stores in the state of Nebraska are small mom and pops and they are not always up to date on their point-of-sale systems and not all of them are able to do that.

GROENE: I go in a little grocery store in Callaway where I buy once in a while and I pick up a toothbrush or something in there I get sales tax on it. If it's a bag of potatoes I don't.

KATHY SIEFKEN: They can do that.

GROENE: The cash register figures that out.

KATHY SIEFKEN: But everything needs to be programmed. It's not just one, you get to do it, and it's done. You have to go in and program each item, so it is labor intensive.

GROENE: Thank you.

KATHY SIEFKEN: The problem with the candy is that the definition of candy is--as set out in your handout is so convoluted--and

this is a national standard--it's so convoluted that it's difficult to see what is and what-- to determine what is and what isn't candy just by looking at it. You have to read all of the labels on all of those products plus all the new introduced products every year.

GROENE: I think you can easily do that by saying any product with a certain sugar content-- content and you'd remember to find out which ones they are pretty quick.

KATHY SIEFKEN: You'd have to read-- you would have to read every label.

GROENE: But the supplier could do that also as a service to their grocery stores.

KATHY SIEFKEN: They don't. They don't. They don't do that.

GROENE: Well, they could. Thank you.

LINEHAN: Thank you, Senator Groene. Senator Friesen, did you--

FRIESEN: Thank you-- thank you, Chairman Linehan. So, I mean, I've heard you testify before on this issue I think other years, but so if you just put a sales tax on everything does that solve a lot of your problems, because you don't have to read labels anymore?

KATHY SIEFKEN: It solves that problem, but it causes another problem, because 80 percent of the stores in the state of-- no. Let me say that again. Eighty percent of the people who live in the state of Nebraska are within 50 miles of the state line which means that they can just go to another state that they live next to, to purchase their goods. So you end up with border bleed when you start taxing food in Nebraska.

FRIESEN: We've heard testimony over and over here that people don't move because of taxes. They don't. They don't change their habits. They don't leave because of income taxes. The idea is we could change some of those rates and they're saying people are not going to move, they want to be here. And I've watched habits and people don't change habits so much. But you're saying that for a little bit of the sales-- do any other of the surrounding states tax food?

KATHY SIEFKEN: Kansas and South Dakota.

FRIESEN: Kansas and South Dakota?

KATHY SIEFKEN: Yes. And their people come down to our stores to purchase products because it's cheaper.

FRIESEN: So it's really the eastern border we're worried about because nobody lives on the western border, right?

KATHY SIEFKEN: Well, we're worried about where people live. Now Iowa also taxes candy and soft drinks and water. And so--

FRIESEN: And so those people flock over here and buy them?

KATHY SIEFKEN: No, they don't. But our people-- so, so yes the people from Iowa in Council Bluffs they come right across the bridge.

FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: SNAP program?

KATHY SIEFKEN: Yes.

GROENE: Your computers pick up everything from a SNAP program that you can-- 'cause SNAP you cannot sell-- sales tax, right?

KATHY SIEFKEN: Correct. And so the items that are eligible for SNAP are the same items that are not taxable in the state of Nebraska. So it's the same program.

GROENE: So they can buy candy with SNAP?

KATHY SIEFKEN: Yes, they can. Yes.

GROENE: They can?

KATHY SIEFKEN: Yes. Yes, with SNAP, yes. As long as it is a-- as it meets the definition of food, yes. They cannot buy prepared food with SNAP benefits.

GROENE: TV dinner?

KATHY SIEFKEN: Pardon me?

GROENE: A TV dinner? What's prepared food?

KATHY SIEFKEN: A prepared food would be something from the deli-

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GROENE: All right.

KATHY SIEFKEN: -- or like a rotisserie chicken that's hot or a meal that's prepared.

GROENE: So they can buy a case of Mountain Dew?

KATHY SIEFKEN: Yes. Yes.

GROENE: All right. Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Yes, Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. Speaking of SNAP and whether recipients can use SNAP benefits for specific products, alcohol is excluded?

KATHY SIEFKEN: Alcohol and tobacco and supplements are all excluded, yes.

McCOLLISTER: Candy is excluded?

KATHY SIEFKEN: No, they can purchase candy. It is defined as a food in Nebraska.

McCOLLISTER: What other items are excluded from those SNAP benefits?

KATHY SIEFKEN: They can't buy a lottery, alcohol, tobacco, or supplements.

McCOLLISTER: Thank you.

KATHY SIEFKEN: Other than that they can buy any food item. They cannot buy nonfood items.

McCOLLISTER: Lobster tails?

KATHY SIEFKEN: Yes.

LINEHAN: Thank you, Senator McCollister. Senator Crawford.

CRAWFORD: Thank you, Madam Chair. And thank you for being here. I want to go back to the question of border bleed. I wondered how do we know how many people from Iowa are coming or how many people from South Dakota are coming? How do we know how many-- how many sales are from folks-- people from other states?

KATHY SIEFKEN: Ted Stessman is following me and he has actually a graph that shows that. It was tracked when-- we tracked it a couple of times. The most recent we have was tracking product or excise tax increases was when Iowa increased their excise tax on tobacco by \$1 a pack and you can see we-- our-- we have members who are on both sides of-- they're in Iowa and they're in Nebraska and they're in Missouri and they just track the dollars that go where. [INAUDIBLE.]

CRAWFORD: So that number is tracking cigarette purchases?

KATHY SIEFKEN: The, the wholesalers are, are tracking cigarette purchases. That's the border bleed that we think happens everywhere on every product when it's taxed, yes.

LINEHAN: Thank you, Senator Crawford.

GROENE: One more quick question.

LINEHAN: Senator Groene.

GROENE: You keep saying candy is a food item in Nebraska. Is that every state it's considered a food?

KATHY SIEFKEN: Streamlined sales tax breaks out prepared food, food, candy, bottled water, and soft drinks, all as separate items. In Nebraska we have always had tax exemptions on all of those items.

GROENE: Other states do not?

KATHY SIEFKEN: Some states do not. And if you look at the very top handout under I think it's upper left-hand corner it has a list of states and what is taxed and what is not.

GROENE: Which one is it?

KATHY SIEFKEN: The one with the map.

GROENE: This one, the front one?

KATHY SIEFKEN: Yes.

GROENE: Well, it just breaks out that candy is taxed.

KATHY SIEFKEN: So candy and soda is-- so usually when a state taxes candy they'll also tax soft drinks.

GROENE: So they found a way to do that, decide what's candy.

KATHY SIEFKEN: They have, but, if I may, for example, in Iowa they have been doing this for 30 years and their point-of-sale systems are up to date and they kind of grew up with the concept of taxing this. We in Nebraska, have never done that. So we--

GROENE: So they did-- they did all the work for us. The software is ready, we can just--

KATHY SIEFKEN: Software costs money. A new point-of-sale system is, is between \$6,000 to \$8,000 per lane. And so that's what you would be requiring grocers to upgrade to if they don't have a point-of-sale system that can break this stuff up.

GROENE: So in Kansas and Colorado, then SNAP can't buy a case of Mountain Dew.

KATHY SIEFKEN: Yes, they can.

GROENE: Well, you-- they don't classify it as food anymore.

KATHY SIEFKEN: No. In Kan-- that's a state law. USDA defines what is food. And if you are a SNAP recipient you can use your SNAP benefits to buy what USDA defines as food, which in the state of Nebraska is the same thing as the tax exempt items. In Kansas that changes and in South Dakota that changes. Everywhere in the nation SNAP recipients can purchase candy and soda.

GROENE: So all the brand names, the huge corporations, the Hy-Vees, Dillons [PHONETIC], or whatever it is that are operating in Kansas and Colorado, South Dakota already have the software and there, there--

KATHY SIEFKEN: Yes, they do.

GROENE: So they can just move it to Nebraska.

KATHY SIEFKEN: Yes. That's why I said the small rural stores would be the ones that would have more of a problem.

GROENE: All right. Thank you.

LINEHAN: Thank you, Senator Groene. Any other questions from the committee? So can I-- on the difference here--and I can see that it's complicated--one's candy and the other one's not candy. Who, who decides that?

KATHY SIEFKEN: The Department of Revenue is the one that enforces. So we would have to read--

LINEHAN: Whoa, whoa, I don't think that's what I'm asking. So maybe I didn't ask it correctly. You have two pictures here, right? This says candy.

KATHY SIEFKEN: Right.

LINEHAN: This is not candy.

KATHY SIEFKEN: Correct.

LINEHAN: Who decides that?

KATHY SIEFKEN: Streamlined sales tax definitions as set out on those pages.

LINEHAN: OK. Explain that to me.

KATHY SIEFKEN: So streamline sales tax was something that was passed a long, long time ago, 20 years.

LINEHAN: Passed by whom?

KATHY SIEFKEN: By-- it was a it was a project that came--

LINEHAN: But it's not a law?

KATHY SIEFKEN: It is in the state of Nebraska. Nebraska adopted it along with about 25 other states.

LINEHAN: OK, let me rephrase it. It's not a federal law.

KATHY SIEFKEN: No, it is not. It is a guideline--

LINEHAN: A compact between states?

KATHY SIEFKEN: Yes, sort of-- sort of a compact, yes. And and so what happened was they were trying to get Internet sales tax-- so that we could collect Internet sales tax. And in order to do that--

LINEHAN: Twenty years ago.

KATHY SIEFKEN: OK. So in order to collect Internet sales tax the definitions of food had to be reciprocal from state to state, the same from state to state.

LINEHAN: So are Missouri, Kansas, Colorado, Wyoming, South Dakota, and Iowa in that pact?

KATHY SIEFKEN: Yeah.

LINEHAN: But yet Missouri, Kansas, Colorado, and South Dakota, and Iowa do. Do they charge-- on candy and soda?

KATHY SIEFKEN: Yes, they do because the definitions in streamline are broken out separately. So--

LINEHAN: So we could do it.

KATHY SIEFKEN: We could do it.

LINEHAN: OK.

KATHY SIEFKEN: But it's a very convoluted, confusing definition that would take a lot of work in each location because there really isn't a master list of what is-- what fits the candy definition and what doesn't.

LINEHAN: OK. All right. Thank you. Are there other questions? Yes, Senator Crawford.

CRAWFORD: Thank you, Madam Chair. I just wanted to clarify. So we have the streamlined sales tax system already.

KATHY SIEFKEN: Yes.

CRAWFORD: We're already marking some of these things as candy and some of them as not candy.

KATHY SIEFKEN: No. No. Because we exempt candy, just like we exempt food, like we exempt water and soft drinks.

CRAWFORD: So we do not.

KATHY SIEFKEN: We do not. We exempt them. They have a specific exemption for each category.

CRAWFORD: Right. For each category. So you're already categorizing them then. Is that correct?

KATHY SIEFKEN: We are-- they, they can be categorized. In the state of Nebraska we do not. They are considered-- they are considered a tax exempt item, so we don't categorize them. Our systems don't identify them as a candy because we don't have to and we've never had to.

CRAWFORD: But you were just talking about this agreement between states to have these same definitions.

KATHY SIEFKEN: We all have the same definitions. If you have an exemption-- you can choose to tax or not tax as a state, that's left up to everyone. In Nebraska, those items are exempt so we do not tax them. You-- the state of Nebraska has the option to tax if they so choose. We do not. Because we do not and never have, the point-of-sale systems in grocery stores are not set up to identify those products. We'd have to go through and do everything from ground zero.

CRAWFORD: OK. Thank you.

LINEHAN: Thank you, Senator Crawford. Other questions to the committee? Seeing none, thank you for being here.

KATHY SIEFKEN: Thank you.

LINEHAN: Next opponent. Go ahead.

BRIANA CUDLY: Thank you. Good afternoon. My name is Briana Cudly, B-r-i-a-n-a C-u-d-l-y. I am the government relations chair for the American Massage Therapy Association Nebraska Chapter. And I'm here today to ask you to remove massage from LB314. In Nebraska massage therapy is not a personal service, rather a valued, licensed, healthcare profession. In 1987, Nebraska increased massage therapy educational standards to move the profession from masseuse and masseur to that of massage therapist, partly in response to the demands of other healthcare professions for the use of the term therapist. Unfortunately, stereotyping often groups our profession with the beauty industry but, in fact, massage therapy like other healthcare professions has an individual practice act unassociated with the beauty industry. And as with all other health professions massage therapy has its own regulatory board. Massage therapy is the only profession listed in this entire bill covered by the VA, Medicare Advantage, HSA, Flex, workman's comp, personal injury, and other health insurance plans. The value of massage therapy in Nebraska is further supported by the healthcare community as evidenced by letters submitted by hospitals, doctors, nurses, PTs, and more during legislative hearings in 2017. I was going to hand those to you, but there's over 400 pages so we're just going to e-mail them instead. Another indication of Nebraska's regard of massage therapy as healthcare

is Nebraska Attorney General Peterson signing of a letter to America's health insurance plans specifically naming massage therapy as a nonpharmaceutical pain management option to help combat the opioid epidemic. The use of the words "massage" and "spa services" is ambiguous terminology. There is no mention of spa services in statute or regulation. A massage is used by many healthcare professionals, including physical therapists, chiropractors, and nurses within their scope of practice within a localized area of the body. Massage therapy is a standardized and licensed healthcare profession combining many soft tissue modalities for therapeutic purposes and defined in Statute 38-1706. I do not believe it is the true intention of this committee to set precedents of taxing healthcare, but that is exactly what this section of the bill proposes to do. Massage administered by physical therapists, chiropractors, nurses, podiatrists, massage therapists, etcetera, would be taxed. Massage performed by a licensed healthcare professional is healthcare and in Nebraska healthcare is not taxed. We ask that you either strike massage from this bill or add the clause "except when performed within the scope of practice of a licensed massage therapist or other healthcare professional". I am happy to answer questions if you have any.

LINEHAN: Thank you very much. Are there questions from the committee? Senator Crawford.

CRAWFORD: Thanks, Madam Chair. So there shouldn't be any massage that's not by a licensed massage therapist, correct?

BRIANA CUDLY: Well, like I stated, physical therapists, chiropractors, nurses, within their scope can do some localized stuff. So say it's a nurse on a NICU, they can take an infant massage class and incorporate that a little bit into what they do. But they cannot charge a 60 minute massage, you know, as a massage therapist. The other thing is that people in the health- or in the beauty industry such as estheticians can do a little neck massage. But I equate that to, you know, anybody can do physical activity but it doesn't make them a physical therapist. Anybody can look at art but it doesn't make them an art therapist. And anybody can rub somebody's shoulders but it doesn't make them a massage therapist.

LINEHAN: Thank you, Senator Crawford. Other questions from the committee. Seeing none, thank you for being here.

BRIANA CUDLY: Thank you.

LINEHAN: Next opponent.

TED STESSMAN: Chairwoman Linehan and the members of the Revenue Committee, my name is Ted Stessman, T-e-d S-t-e-s-s-m-a-n. I reside in Omaha, Nebraska. I work for Farner-Bocken Company, it's a division of Core-Mark International. We're a broad-line supplier of food service, candy, snacks, tobacco. And I'm also the chairman of the legislative committee for the Nebraska Grocers Industry Association. And I'm just going to follow Kathy with a few things on border bleed. You know, the one thing that I'm going to make mention that when consumers find out all their choices, you know, sometimes they feel differently about taxing tobacco when they have those. For instance, ballot initiatives in 2018. Colorado, North Dakota, Missouri were defeated because when you put together the border bleed, which in Iowa back in 2007 was real, retailers lost 40 percent of their business-- 28 to 40 percent of their business. I'm talking strictly in tobacco. But the ancillary goods like the items we're talking here, water, soda, beer, spirits, and snacks, those all add in to what we call a market basket. And the typical purchaser of tobacco products will spend close to \$20, including that tobacco when they go into a store and make purchases. So if tobacco-- in our case, if we raise it from 64 cents to \$2.14 and a lot of customers purchase cartons so you're really talking about a \$15 increase from \$6.40. So you look at that, they will if they see a \$20 dollar difference in Missouri, they'll go over there. And

when they go over there they'll buy the ancillary items. It happens all the time. I'm in ten states myself and I can tell you when you go to Nebraska City and you go to Rockport, the difference in those customers that purchase cigarettes are real. If you go to Missouri and you go to Illinois, West Quincy is on the Missouri side. Four stores do as much as 34 percent-- or 34 stores on the Illinois side. The figures that we could show you from MSA data on the exact cartons sold, OK, are real because the states get paid not only excise tax, they get their MSA payments all paid by the manufacturers based on the MSA settlement. So the numbers that we see are real and some items-- sometimes you're looking at figures that, you know, are projected. We also know that cigarettes have decreased 14 percent.

LINEHAN: Thank you very much. Are there questions for Mr. Stessman? Senator Friesen

FRIESEN: Thank you, Chairman Linehan. So when you're-- when you're tracking like cigarette sales, when you see a big increase like Iowa can you also kind of equate to what that impact has had on the number of people smoking?

TED STESSMAN: Well, in 1960, for instance, it was 40 percent. Today nationwide it's 14 percent.

FRIESEN: But there's a-- there's a big increase-- have you seen a severe drop when you see a big increase like that or is it temporary?

TED STESSMAN: You know-- well, when people quit they, you know, a lot of them will quit and come back. But annually-- because we get the, you know, we get the stamping report from the state of Nebraska, for instance. I've been getting it for the last 15 years. With the exception of one year, it typically ticks down about 3 percent a year. Hence from 40 percent over a period of time, you know, down to 14 percent. And I guess the point there is, is that it's not going to be a stable source of revenue for anybody of government, whether it's the federal or the state.

FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Does any state just do a flat sales tax on grocery items that's less than the state, like 2 percent instead of 5.5?

TED STESSMAN: You know, I'm not the extra-- expert on the grocery side, so I would defer that to Kathy and I'm sure she could send you the information.

GROENE: How about vaping or whatever, have you gotten into that end of it?

TED STESSMAN: Yes, we're into that end of it, we certainly are.

GROENE: And how much has that increased over percentage of your sales versus cigarettes?

TED STESSMAN: It's less than 1 percent.

GROENE: Less than 1 percent yet?

TED STESSMAN: I know it gets a lot of publicity, you know. In particular one company, you know, that has grown exponentially. I mean, our sales with that one company, it went from \$5,000 a month to \$10 million a month. Now with some of the regulations that's been self-imposed with their age restrictions and things like that, you know, they've went down for us, you know, to a little over \$2 million a month. And, and, you know, the science-- the FDA is just going to have to figure out what they want to do there. I mean, in my opinion, two years ago when they extended the period of time that the manufacturers had to submit their P-- PMTAs, you know, and which was their ingredient labeling, their science, and the flavors. I mean, they could have restricted the number of flavors at that point in time. And I think that would have decreased this epidemic that you've seen with JUUL. But I think that JUUL epidemic is being, you know, it's being addressed. I know it certainly is, you know, with the

FDA and it certainly is by the responsible manufacturers out there as well.

GROENE: How about the states? How do they vary on age limits in the area you cover for [INAUDIBLE] in it?

TED STESSMAN: Well, the, the federal law is 18 for smoking. OK? And as far as vaping, you know, that's kind of over the board. But it should be at least what the federal age is at 18. There are some states that have the smoking age-- they've raised it to 19 or 21. There's not a handful of those, but there is, you know, legislation in cases to do that.

GROENE: And it's 18 on vaping now?

TED STESSMAN: We tell everybody it's 18. Some manufacturers say 21. It's kind of the same with those CBD products, they are not at this point age restricted, but responsible manufacturers will put it on their packaging. Responsible wholesalers will tell our customers. But, for instance, the state of Nebraska doesn't say 18. It should.

GROENE: So it's not enforced in the state of Nebraska the federal--

TED STESSMAN: There isn't a lot of CBD product here yet, but it certainly should be addressed.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Senator McCollister.

McCOLLISTER: Thank you for coming. On the topic of vaping, there is no tax on vaping products?

TED STESSMAN: There's some-- there's some-- there's no federal tax on it. Some states have a tax on it. And, you know, you're going to have to test-- tax it by like the milliliter based on the liquid itself. There's no tobacco in it and that's why it hasn't been taxed before, but there could be tobacco flavoring as well as grape and cherry, some of the other things that we do see out there.

McCOLLISTER: So if I understand your answer, you're saying there is no Nebraska tax on vaping products.

TED STESSMAN: No.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee? Seeing none, thank you very much for being here.

TED STESSMAN: Thanks for having me.

LINEHAN: Next opponent.

STACY WATSON: Hello. I'm Stacy Watson, S-t-a-c-y W-a-t-s-o-n, and I'm representing the Omaha Chamber, the Lincoln Chamber, and GNTC. I just want to tell you again that, you know, like yesterday for LB276 we are--to reiterate--our opposition to the exclusion and the repeal on the sunset of the non-Nebraska S corp, LLC exclusion. But the other reason I'm here today is to talk about the special capital gains exclusion and I do agree that, that is unique to our state. What I disagree with is the reason that we have it. I think it really does attract young entrepreneurs and retain richer people. I know this-- everybody talks about how people aren't going to leave this state just because of a tax law. And, first of all, I want to point out that employees of these companies, they receive this tax benefit as well. It's just not some big, large person who owns 100 percent of the company and gets to sell it and save taxes. I have actually friends that work at Lincoln and they get to take advantage of this and it's only one stock ever. So you don't get to move from company to company and continue to take this exclusion. But for the more mature, wealthier people who have built their company and decide to sell it, as a good tax accountant I would do a planning strategy and have them move for a few years from this state. And then if they wanted to come back later because they loved it so much they could. But in that year of the sale if we didn't have this exclusion we could plan

for our individuals to leave the state and pay no tax at all. And I think everybody thinks of this as a way to get revenue. In my mind, when those people leave those-- the state we lose revenue. And, you know, again, we're not getting their monies to invest in their next business. These are entrepreneurs. These are people who never seem to sit down after they have one business. They keep going and where they're-- they're involved in their community, they're involved in their district. So I think I would be a real detriment to our system to get rid of this special capital gains exclusion. But I'm also open to any questions regarding the S corp, LLC exclusion, because I know we had a lot of discussion about that yesterday as well. I didn't want to have to go through all the technical aspects and bore you guys. So with that, I'll take any questions that you have.

LINEHAN: Thank you. Are there questions from the committee?
Senator Groene.

GROENE: To clarify a question I asked a testifier yesterday, in the present system with an S Corp, when Nebraska is at a 's 8-- 6.84-- I don't know. What's Missouri?

STACY WATSON: Missouri is between 6 and 7.

GROENE: Let's say 7 and Arizona is 4.5 or something like that?

STACY WATSON: Yeah, Arizona is 4.5.

GROENE: All right. So you have a customer come to you and they do an awful lot of business and they have an S corp in Texas or South Dakota or Wyoming. But they-- they don't want to live there. They might want to live there, but they don't like Texas. Where would you recommend them live-- move to, to save the most amount of money-- tax dollars-- state tax dollars if the majority of their income came through sales in Texas or South Dakota or Wyoming?

STACY WATSON: Right. So if we don't have to pay taxes in those other states and, you know, maybe there's not a metropolitan area in that state you want to live to, the option right now under the current taxing structure is to live in Nebraska. So the effective tax rate here for the S corp and LLC shareholders would be less than the Arizona tax rate based on this S corp and LLC income exclusion. So it gives them an opportunity not to have to move to, say, a no-tax state where maybe there's not the things that we have here in Nebraska and they can live here and have a lower effective income tax rate with this exclusion that's available now.

GROENE: Even-- it's not only on a zero tax state, it's also if a tax state is less.

STACY WATSON: Correct. So Arizona, say--

GROENE: Because it's the difference, isn't it?

STACY WATSON: Correct. So Arizona, say, it's 3.5, 4 percent. Right now, Nebraska is-- it's at 6.84. So with this exclusion we can get lower than Arizona. And so it helps keep people from fleeing to a no-tax state or even a lower tax state. So yesterday when we talked about it we need to can be competitive with all the states around us, not just, you know, I don't believe in the uniqueness of this. We have already had that discussion. I think there's seven other states that have a similar provision, just not in the exact same wording. But we're not just competing with, you know, other states. We're competing with low-tax states, no-tax states. And so, yes, it would be more effective-- cost effective for them to live here than, say, Arizona based on that exclusion.

GROENE: So we're kind of a tax haven for S corps.

STACY WATSON: S corp and LLC business owners, correct.

GROENE: We are. We do have an advantage over some other states then.

STACY WATSON: We do have an absolute advantage.

GROENE: And it's not income generated here or so we're not really losing anything.

STACY WATSON: Right. I mean, at the end of the day it's good tax policy to tax income that's earned in your state. And so that's what we currently tax. That's what these six other states I mentioned tax. And so we're not punishing people who choose to live in our state, because if you didn't choose to live in our state and you did live in South Dakota or Wyoming or even Iowa who has this credit, you're taxed the way our current residents are. So I'm not sure why we would punish you for being a resident of this state.

GROENE: And if you live here and your net income is generating tax and income comes from Nebraska, we got a good chance that income is going to be spent in Nebraska to help our retail trade and everything else.

STACY WATSON: Oh, I find our business owners to be, you know, they like to spend their money here, they like to invest in their community. To Senator Friesen's point earlier, that's why people stay, because we're invested here and our business owners are no different.

GROENE: All right, thank you. Another question quick, I know we have-- define to us where we're missing out on with the sales

tax case that it's not related just to sales tax. It also has an effect on the nexus of income taxes that we could be-- a tax that we could be charging that every other state does that we're missing out on incomes.

STACY WATSON: Right. So the current Wayfair decision that came in June, it was act-- it was a sales tax case, but there's two components to that case. So what the Supreme Court actually said is that economic nexus applies across the board. So economic nexus is both the term used for sales tax and a term used for income tax. So I know we're looking at the remote seller sales tax bill. So that's one component. So if a company from out of state is selling goods or-- goods or services into the state of \$100,000, I think is the limit that we're going to put in 200 transactions, because that's what Wayfair defined it. That's how the Supreme Court defined that economic nexus presence factor. So if that's, you know they can sit out of state all they want, they never have to touch anything in this state. But if they sell into this state, we would now have the right to make them collect sales tax and pay that over. And why that's important is generally they're selling to consumers and consumers don't self-report their own use tax. The second part of that, and to make it complementary-- and, again, what we want here is good tax policy. So now business understands there's economic nexus rules

out there. I'm going to abide by them for sales tax purposes. So why wouldn't we make them abide by them for income tax rules as well and put a threshold out there that says, now normally for income tax it's a little bit higher than \$100,000, so if you want that to be \$300,000 or \$500,000. But you put a rule out there that says, OK, once you sell that amount of your service into my state now you have to pay tax on that. And I think that, that's just good tax policy, because they're earning the revenue from being generated in that state, just like our current policy stands for our residents that are sitting here. And it's pretty easy to figure out who those people are, because they are going to register for sales tax. There's nobody in their right mind who wouldn't register for sales tax. So once they register for sales tax, all the Department of Revenue has to do is go into their database, ask who's registered for sales tax, look up out-of-state companies. If they haven't filed an income tax return, we send them a letter and say, hey, by the way, we have this rule for income tax as well. And, you know, are you meeting our sales or our thresholds? And so I think that's a way that we need to generate that seems like good sound tax policy.

GROENE: You'd mentioned something about royalties, too, on franchises that this case--

STACY WATSON: Yeah. So this would have-- this would apply to royalties as well. So right now unless you have a physical presence in the state, you don't have to pay income tax into the state. And so a lot of the royalty companies basically have a company that sits outside of anything else that never physically touches the state, because good tax accountants, we did that a long time ago, right? But this Wayfair decision says, OK, that's not the way it works anymore. If you're earning revenue into that state, regardless of whether it's sales tax revenue or income tax revenue, and you reach that threshold-- so if the royalties reach the thresholds that you guys set, \$300,000, \$500,000, whatever it is, if they're getting that off of a McDonald's franchise here or, you know, any kind of franchise operations here, now that out-of-state franchisor would be required to file an income tax return and pay income tax into this state.

GROENE: So to simplify it, if McDonald's Corporation sells a franchise and then that franchise owner pays McDonald's a royalty every year for that franchise, right now we can't collect income taxes because it's income--

STACY WATSON: Correct.

GROENE: -- but now we could.

STACY WATSON: Absolutely, if you do the income economic nexus factor. Correct.

LINEHAN: Thank you, Senator Groene. Senator Kolterman.

KOLTERMAN: Thank you for coming today. I've got a serious question. But I have a question first that might not be quite as serious.

STACY WATSON: OK.

KOLTERMAN: So what you just laid out for Senator Groene and the rest of this kind of explains how we're going to grow this state isn't it?

STACY WATSON: Absolutely.

KOLTERMAN: So wouldn't that be a good reason for Senator Groene to sign on to my bill?

STACY WATSON: Well, you know, maybe we can talk about that later. You really put me on the spot here.

KOLTERMAN: Now seriously, of the people that, that utilize this, you know, moving out of state, how many people move their physical residence or declare residency in another state and still have residency here? In other words, do they really move to other states in a large amount to gain the tax?

STACY WATSON: If you would have asked me 20 years ago I would say a lot of people would put a mailbox in a state. But we've realized that that's not how it works from a case law perspective and a lot of people were caught. And so as good tax accountants we can't allow you to just have a mailbox in a state. But a lot of our larger business owners have over time bought houses in these states because we do live by the borders. I know the grocery stores were talking about border bleed, but we do live by these borders. Out in western-- I mean, you have Wyoming right there. I love Jackson Hole. I wouldn't, I wouldn't live there but I love it. And so a lot of people have bought houses outside the state of Nebraska already and they're spending time there, they're just not spending a majority of their time there. And so if they really wanted to avoid the tax, once you get more than 183 days outside of the state you're no longer deemed a tax resident. Now there's other things we have to do, like get your driver's license and go to church there, have a country club there. But those, I mean, there's a list of rules that they have to follow that we've vetted out for case law over time. And the ones that don't have their little kids in school, they are the ones more likely to do that, but they're also the ones that have the cash flow to put back into our economy.

KOLTERMAN: OK. Thank you very much.

LINEHAN: Thank you, Senator Kolterman. Other questions? Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. We've been talking about economic nexus for income taxes. How many states have instituted some kind of regimen to collect those taxes?

STACY WATSON: So there's probably more than 25 states right now that use economic nexus from that perspective. There's only a few that use this specific factor nexus that I'm discussing because up until this Wayfair decision in June no one was quite sure if that was constitutional, so a lot of people stepped back from that early on. But there had been probably 15 to 17 states that were using a more complicated version of that. I call it Jeffrey the giraffe version. So if you think about it, you know, the Toys R Us, they're the ones who kind of have the case law on this Jeffrey the big giraffe that markets the store. You know, some of the states argued that once you put that icon in their state, that big giraffe, that they were allowed to tax that portion of the revenue. So that's been happening for some time. But this broader economic nexus factor really just came down in June with the Wayfair decision. So right now there's probably 22 states total.

McCOLLISTER: Even in a small state like Nebraska that would be a big number, would it not?

STACY WATSON: I believe it would be because, I mean, franchisors go-- you know, and they're an easy one to pick on, right? But they go where the population base is. You're not going to pick up your McDonald's that's serving you, you know, a bunch of people down the street regardless of what town it is, because they're receiving revenues from where the customer base is. They're not going to pull their store out just because all of a sudden they have to pay an income tax now. So these franchisors tend to end up where population bases are.

McCOLLISTER: I hate to rehash some of the testimony you did yesterday. Did you find the Professor Thimmesch, some of his analysis that was at the end of the hearing, did you stay for the whole-- the entire hearing?

STACY WATSON: I did. I thought the neutral category was incorrect but OK.

McCOLLISTER: Would you care-- where do you differ with his opinion on, on, on, on LB275 that came through yesterday?

STACY WATSON: Sure. I think, I mean, the nice thing is, is I think we both agree with this economic nexus. He spoke about

that at the end and he was in agreement that that's good tax policy. When he sa-- speaks about the uniqueness, I believe our language is unique. We only share similar language with Oklahoma. But I disagree that-- in my mind, seven states getting to the same point on taxation, some of them that don't tax individuals at all. So Tennessee and Texas do not tax individuals, yet they've recognized that the S corp, LLC is an entity, just like Nebraska has. And so, in my mind, we're re-- you know, we're recognizing that these entities have parity and the tax system needs to be in parity with that. So I disagree that, that we're incredibly unique in that manner. I als-- having 25 states do some sort of economic nexus, that's a big deal. It's rare that all states share the same tax policy unless there's a federal law or a federal case that basically tells you, you have to or you can. Most people choose it based on where they live and why they're competing. So I think I disagree with him on that. And I also incredibly disagree on your fiscal note. I know we've talked about credit for taxes paid. So right now you have a fiscal note of \$84 million dollars. One-- there's no purview into what credits these new people could probably have under your new structure. The only time you ever get a state tax return is if I'm asking for credit for taxes paid to another state. These people aren't asking for that right now. They don't have to provide that information. And so when you're

calculating \$84 million, you know, my client that has a \$5 million dollar exclusion, you're currently calculating that you're going to get \$400,000 from this client, but he pays \$770,000 in other state taxes that he's currently not even getting a deduction for anymore because of the federal tax law. So by the time I give him a credit for taxes paid in Nebraska you're going to get \$6,550, so you're going to be sad, you know, when we have a fiscal note that we're planning for \$84 million to go somewhere, whether that's to property tax relief or something, and we don't have that money and we have a budget shortfall. So I think that's a huge concern in looking at this.

McCOLLISTER: Thanks for coming again.

STACY WATSON: You're welcome.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee? Seeing none, thank you very much for being here.

STACY WATSON: Have a great day.

LINEHAN: Now we will have, if there are any, neutral.

CRAIG BOLZ: Senators, my name is Craig Bolz, C-r-a-i-g B-o-l-z. I picked up the bill yesterday, spent six hours going through it, so I'm probably ahead of a few people. I understand a little bit of it. This is Senator Groene's property tax relief

proposal, a TEEOSA redo. Great piece of work. I picked up this today. I'm testifying neutral here today for the simple fact that it doesn't go far enough. A half a percent sales tax ain't even close. We need 2 percent. We need 2 percent put in this. We need to do something drastic and fast. Secondly, what we need to do is we need to stop spending money. I'm appalled. Write that word down--appalled--by the Governor's budget, 3.1 percent increase. We should cut the budget 5 percent to start with. And then let's see who's serious and who's not. Five percent this year, five percent next year. Yeah, OK, you guys. Oh, it would cut jobs. Yep, sure will. Sure will. It's not my-- it's not my responsibility to worry about any kid's tuition at a state college. I put my kids through college. We're done. We're paid for. It's not mine-- I don't care what the tuition costs for UNL. I don't care what it costs. The-- they need to pay theirs. They need to be in the fire. The Governor's \$51 million dollar tax credit to go the relief fund isn't even a crumb-- isn't even a crumb what we need. What happened here in the state, and I've talked to you people before-- do I get 15 minutes? Right, I get 3.

LINEHAN: No, no, no, you get three minutes you've got another minute. You got a minute.

CRAIG BOLZ: In 1997, I think it was, we capped the spending at 1.05. We didn't cap the growth. We created a huge problem. We need to go back and fix that. The only new wealth in the state of Nebraska comes out of the ground. The only new wealth on the earth comes on the ground, whether it's trees, whether it's grass, whether it's corn, whether it's oil, whether it's gold. It doesn't come out of the University of Nebraska. Let me read one more thing. And I've got about five things, when you guys need some help, that I can help you how to fix these problems. There was a really smart guy wrote a letter to the editor and it said: State senators have never done anything out of-- about the out of balance property taxes or any property tax relief that amounted to anything enough nor will they ever do anything. They do-- they don't need to. They don't want to. And they don't know how to fix the problem. That really smart guy that wrote that letter to the editor was me. And I challenge the 49 senators and the Governor to correct this.

LINEHAN: Thank you.

CRAIG BOLZ: Thank you. Do you have any questions?

LINEHAN: Thank you. Thank you. Do we have questions from the committee?

CRAIG BOLZ: Thank you. Thank you very much.

GROENE: I want to ask a couple of questions.

LINEHAN: OK. Senator Groene. Senator Groene has got a question for you.

CRAIG BOLZ: Oh, you do have a question for me? I'm sorry.

GROENE: So you pay farm ground taxes on property?

CRAIG BOLZ: Yeah, and I pay the taxes on the rented ground, also.

GROENE: That's true.

CRAIG BOLZ: Indirectly.

GROENE: That's true. So in your school district, is it equalized?

CRAIG BOLZ: Yes, it is. You asked me that last year. I didn't, I didn't know. But yes, it is, because we, we just ran a school bond and had to run it three times to get it passed. Totally split our communities up. It's a terrible situation, terrible. And, yes, we are equalized, but that is going to decrease drastically as the-- as, as the bond goes down as the school district gets older.

GROENE: So you're one of them farmers who really gets hit hard in an equalized district.

CRAIG BOLZ: Well, yeah. We're-- we got the Palmyra-Bennet split, we got Bennet who's, who's the third largest growing town in the state of Nebraska. You know, you've got all these 35 and year old and younger kids that they have control of the school district, control of school board, control of the spending. And then you got over here about, oh, about 4 to 10 percent the people that pay most of the taxes. Oh, let me explain one other thing to you. I left this out. Costa Rica runs their whole country off a 13 percent sales tax. It's the only fair tax in the world. It's a consumption tax. They have-- they have no income tax in the whole state-- country. They have no crime, very little crime. They got one prison in the whole country. The police officers don't even carry guns. I don't have any sons. I had this dream that I wanted to get my farm to my daughters and my granddaughters. The dream's over. I'm gone. You say, nobody leaves because of taxes. This guy's headed to Costa Rica. Laugh all you want to, laugh, laugh. I don't think it's funny. I don't think it's funny. I'm headed to Costa Rica. I'm out of here. I'm done. I'm sick and tired of this. Thank you very much, guys. Thank you very much, Senator.

GROENE: We'll try to keep you here.

LINEHAN: Thank you. Propon-- no. No clapping, guys. Come on. Hi.
Excuse me. Good afternoon. Go ahead.

DAVE WELSCH: Good afternoon, Senators. My name's Dave Welsch, D-a-v-e W-e-l-s-c-h. I'm here to testify in support of LB314. My name is Dave Welsch. I have farmed south of Milford since 1978. I began farming while still attending UNL and graduated with an ag education degree. I currently serve as president of the Milford Public Schools Board of Education. I've served on the board for 20 years. I have a strong interest and involvement in both agriculture and education. I believe that this experience provides me with a unique perspective. First, for Milford Public Schools. Since the beginning of TEOOSA, Milford has been an equalized district and continued today. Since 1990, equalization aid has helped to bring closer together the tax levies across the three school districts in Seward County. In 2011, Milford state aid totaled \$2.5 million dollars and seven years later in 2018 it totaled just \$900,000, a loss of \$1.6 million. In 2011, Milford's general fund property taxes were \$3.2 million and in 2018 property taxes totaled \$5 million, an increase in property taxes of \$1.8 million. Allowing for a small amount of inflation over those seven years, you can see that \$1.6 of decreased state aid, sales, and income taxes has shifted to an increase in local property taxes. In many school districts across the state a

similar tax shift and tax increase has also occurred. Education spending is not the reason for increased property taxes. At Milford over the past ten years our general fund spending has increased by an average of just 2.1 percent. In the past three years it has increased by an average of a negative 1.5 percent. The reason for this dramatic tax shift onto property taxes was due to ag land doubling in value from 2010 to '15. This unprecedented and unanticipated increase in ag land property values could not be compensated for within the current TEEOSA formula. Therefore, my property taxes doubled from \$11,000 to \$22,000 in just five years. The TEEOSA formula needs adjusted to compensate for this increase in ag land valuations. So what's the Legislature to do? In simple terms you need to increase the revenue from sale and income taxes. And this has been accomplished in LB314. I applaud the work that Senator Briese and Nebraskans United did to create LB314. Nebraskans United included all the major ag and education groups working together. Once revenue is raised then the TEEOSA formula needs to be adjusted in regards to ag land values, such as lowering it to 40 percent or less as in Senator Friesen's bill. This simple step will help to bring equalization aid back to the school districts that were first to lose out on state aid and were the first ones forced to shift that loss of state aid--

LINEHAN: I'm sorry.

DAVE WELSCH: -- onto property. Thank you.

LINEHAN: Thank you.

DAVE WELSCH: The rest of it's in the writing there.

LINEHAN: Thank you very much.

DAVE WELSCH: I'd be happy to take any questions.

LINEHAN: Thank you. You have put-- yes, Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So your growth over the past years has been well under the 3 percent cap that the Governor proposes?

DAVE WELSCH: Correct. Our general fund expenditures are 2.1 percent on average for ten years.

FRIESEN: So even if we would have put in a 3 percent cap we'd still be in the same place we're at today.

DAVE WELSCH: For Milford, yes.

FRIESEN: OK. Thank you.

LINEHAN: Yes, Sen-- thank you, Senator Friesen. Senator Groene.

GROENE: Thank you, Chairman. So the \$11,000 you talked went to \$22,000. How much of that-- was that all-- were you just talking about your school taxes or your total taxes?

DAVE WELSCH: That would be total taxes.

GROENE: So what proportion of that was due to the school, do you know?

DAVE WELSCH: The levy currently is around \$1.33 and the schools' portion of that is about \$.88, counting bond and special building fund. So do the math, roughly three-quarters, I suppose.

GROENE: So you're equalized.

DAVE WELSCH: Yes, barely yet.

GROENE: But you managed to get your levy down?

DAVE WELSCH: Yes. We were-- I believe it was the bill that you introduced a couple of years ago that we weren't forced to have a minimum levy to receive our equalization aid. Once you lifted that restriction upon our school district, then we were able to lower our levy for all of our property taxpayers.

GROENE: So you were able to-- you've got a good school board that's not spending everything they can get their hands on.

DAVE WELSCH: I would guess most school boards across the state do not spend everything they can get their hands on.

GROENE: There's about 165 that don't. I think in the 160s that max the levy as high as they could. So, no, there's good people on school boards and good administrators.

DAVE WELSCH: Yeah. I think there-- maybe there'll be others that will testify to this, but recently I think NASB looked at the general fund spending in education across the state for the last ten years and it's increased by maybe 3.2, 3.3 percent, whereas the state of Nebraska's General Fund expenditures have been a couple percent-- tenths higher than that. So schools are doing just as good as this body is, so.

GROENE: But 40 percent, 50 percent of your increase came from the other taxing entities, because they took advantage of the valuation increases, too.

DAVE WELSCH: Some of those had value levy reductions over those eight, ten years, but--

GROENE: But you still had another 40 percent increase that wouldn't be accounted for if you take \$88 of \$130-- 103.3 mils. I'm just guessing.

DAVE WELSCH: Yeah, I can't accurately respond to that without doing the math myself.

GROENE: Thank you.

LINEHAN: Other questions? I have one. When you say-- what, what is your base year in the fourth paragraph. Education spending is not the reason that Milford over the past ten-- so are you starting at 2008, 2009? Because there was a couple of years, and maybe you were on the school board then or not, when we get the federal--

DAVE WELSCH: The ARRA money?

LINEHAN: Yeah.

DAVE WELSCH: Correct.

LINEHAN: Which increased everybody's budget quite a bit, 'cause--

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DAVE WELSCH: Well, it increased the total amount of state aid that we received.

LINEHAN: Right. Two years in a row, right, wasn't it?

DAVE WELSCH: I believe so.

LINEHAN: So, so because I've had this numbers given to me before and if you go back to the year that it was increased significantly, it's a little-- I'm not saying it's not-- it's just something-- I don't know what year you're using there. That's my question.

DAVE WELSCH: Well, the past ten years from basically 2008 to 2018.

LINEHAN: And the ARRA money-- ARRA money?

DAVE WELSCH: A-R-R-A.

LINEHAN: A-R-R-A. That was in '09 and '10, right? We can look that up.

DAVE WELSCH: Pretty close.

LINEHAN: Yeah. Yeah. OK.

DAVE WELSCH: I'm trying to find some paperwork that might support that.

LINEHAN: That's okay. Okay. Thank you. Any other questions? Thank you very much for being here.

DAVE WELSCH: Thank you.

LINEHAN: It's very helpful, Mr. Welsch. Next proponent. No. We're going-- we want one neutral. No. Proponents, five; opponents, five; one neutral. So now we're back to proponents.

AL DAVIS: Good afternoon, Senator Linehan and members of the Revenue Committee. I am Al Davis, A-l D-a-v-i-s, here today representing the Independent Cattlemen of Nebraska in support of LB314. I am pleased that the Revenue Committee is digging into the property tax crisis in Nebraska and that is exactly what the problem is, a crisis. Property taxes in Nebraska are too high, not just for farmers, ranchers, and commercial property owners, but also for homeowners in every county. In 2017, an article was published by the University of Nebraska in their publication, MarketWatch. The article detailed the per capita property taxes for farmers in the 50 states. Nebraska led the nation with over \$22,000 per capita; California was in 2nd place at just over \$13,000; Iowa came in 3rd at \$9,000; and Missouri was 15th at \$2,000. Research I've done in my own part of the state indicates that property taxes eat up between \$90 and \$120 for every calf sold or roughly 15 to 20 percent of gross income. Yesterday the committee heard testimony from special interest groups concerned about preserving their tax exemptions so they can remain competitive with other states. We must provide the same attention to the ag industry, since the crops we produce in

Nebraska are commodities over which we have little price control. High property taxes mean that ag interests have less capital remaining to reinvest in their Nebraska businesses when compared to operators in other states. High property taxes are largely about school funding. Across rural Nebraska increasing valuations move dozens of schools outside the equalization formula so that by 2016 three of every four school districts in Nebraska receive no equalization aid. Today's valuation increases are affecting urban districts in the same way. West Side is an example of an unequalized district. Other experts on public education would tell you how vexing it is to board members and administrative individuals who are often accused of profligate spending when valuations increase and TEEOSA funding goes down. The budget hasn't increased but the task-- tax asking may have doubled. There are several components of LB314 which have much merit. Restoration of the allocated income tax will restore one of the promises of LB1059, which has been minimized over time. ICON also strongly supports the increase in SPED funding levels because SPED costs can be staggering on a small district. In addition, SPED funding increases will benefit every Nebraska school district so they are all winners. Of course, the problem this committee faces is where did we find the money for the changes? Senator Briese and the coalition have spent almost two years looking at alternatives and have presented a multitude

of good ideas in this bill. We are already hearing complaints and rumblings from those affected by these changes that these increases will harm them. We've seen the brewing industry attack the bill and others and we've seen the Governor jump into the discussion to support the brewers in Nebraska by arguing against a tax shift. I'd like to remind Governor Ricketts and the brewing industry that it is largely the property taxpayer who picks up the tab for problem drinking in Nebraska when the law may be involved. I hope you'll have the courage to ignore these complaints and work for a compromise which will produce significant property tax relief for Nebraskans. I'd like to make one other comment about the bills coming up later today. I--

LINEHAN: Maybe we can ask you a question.

AL DAVIS: OK.

LINEHAN: OK. Thank you very much, Senator Davis. Is there a question from the committee?

GROENE: What do you got to say about my bill coming up later?

LINEHAN: There you go.

AL DAVIS: So I think that both your bill and Senator Friesen's bill have a lot of merit and there's good things in those bills. My concern about both bills is, I just do not understand how,

how you can put together a coalition of 33 when you have a sales tax on food. I think it kills the deal. So I will help you consider looking at other revenue sources because pulling together 33 votes is going to be challenging enough.

GROENE: But isn't-- Senator Davis, isn't that our problem where we're high-spending state because we put too many coalitions of 33 percent together and we gave everybody everything they wanted?

AL DAVIS: It's certainly a part of it. You know, we put \$700 or \$800 million dollars in exemptions in place in the last ten years.

GROENE: Exemptions when we spent more.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, thank you Senator Davis for being here.

AL DAVIS: Thank you.

LINEHAN: Next proponent. I just want to take a minute since this came up here, so we don't get kind of off on the wrong track. You can submit your testimony for this bill, for Senator Friesen's bill and Senator Groene's bill, but it can't be different testify. If you have the same testimony for all three bills you can submit it for all three bills. But if you're for

and against or neutral then they had to be three different testimonies and it can't be on this bill. OK. Thank you.

JASON HAYES: Thank you, Senator Linehan and members of the Revenue Committee. My name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I represent the Nebraska State Education Association. The association supports LB314 and thanks Senator Briese for introducing the bill. NSEA is a coalition partner with Nebraskans United for Property Tax Reform and School Funding [SIC]. NSEA will only support significant tax reforms to provide property tax reductions when coupled with adequate and sustainable replacement revenues. LB314 goes a long way in that direction. And I wasn't aware of your, your prior comments, Senator Linehan. I did pass out a letter on LB497 as well. We urge the committee to support LB314. And we've had some concerns on LB497 as well.

LINEHAN: OK. Well, you have to hold that, then.

JASON HAYES: OK.

LINEHAN: OK. All right. Thank you, Jason or I'm sorry, Mr. Hayes. Other questions from the committee? Would you support this legislation or others if there were any spending caps on them?

JASON HAYES: I'd have to take a look at it. I, I know there's already caps with regard to levy rate increase, \$1.05, and the budget lid. I guess it just depends on, on what the proposal would be.

LINEHAN: So how are taxes going to go down and if we leave the lids the same?

JASON HAYES: Well, a good part of the Nebraska's-- or the Nebraskans United proposal is providing that tax property rebate or the credit. It's an additional \$400 million dollars that would go towards that. So I guess--

LINEHAN: Are you talking about the property tax credit?

JASON HAYES: I'm sorry, the property tax credit. So you put additional money into the property tax credit. Schools would still be limited by what they could spend in their budget as well as increase in their tax levy. So those-- NSEA's position would be those would be sufficient caps already to-- I think what you're suggesting is, is that school spending would increase dramatically if there was additional money out there.

LINEHAN: Well, it seems to have that pattern for the last several years.

JASON HAYES: Well, and that's why caps have been put into place, so.

LINEHAN: Any other questions from the committee? Seeing none, thank you very much, Mr. Hayes, for being here.

JASON HAYES: Thank you.

LINEHAN: Next proponent.

DENNIS SCHUSTER: It's been a long day.

LINEHAN: Good afternoon. Name and spell it, please.

DENNIS SCHUSTER: OK. Good afternoon. My name is Dennis Schuster, D-e-n-n-i-s S-c-h-u-s-t-e-r. I'm a retired southeast Nebraska farmer. I own my own land and rent out to a young farmer and still operate then after a young farmer and still operate Schuster Ag Service. I'm in my fifth year as a Lewiston School Board member and a three year as a treasurer. I've worked on the Nebraska United Property Tax Reform and Education Committee for two years now. I am here to support LB314, because I feel it provides a fair and adequate method to relieve property taxes in the state of Nebraska. There are a lot of good provisions in LB314 so in the three minutes I'm allotted I would like to touch on one of them, allocated income tax. When Nebraska's current school finance formula was put in place in early 1990s it called

for 20 percent income tax collected in a school district to be allocated back to that district to help increase state aid to schools and to offset the need for reliance on property taxes. That was LB1059. In 1996, the Legislature capped the statewide amount among available-- with allocated income tax of \$102 million dollars. Starting in 19-- in 18-- 19-- in 2017 and '18 the cap provision was eliminated and the income tax rebate was fixed at 2.3 for the state income tax. That was LB806. Capping income tax liability contributed to reduce state aid for schools and increased reliance of property tax to fund education. By returning the allocated income tax to the original amount of 20 percent, Nebraska can reduce their property tax reliance. It would require about \$70 million in state revenue to increase the allocated income tax to 20 percent, according to 2018 estimated by the Legislature's Fiscal Office. There's been a lot of time and hard work put in the Nebraska coalition to put LB13 [SIC] together and I feel it's one of the best property tax relief bills brought to the Revenue Committee this year. I respectfully asked for the Revenue Committee to bring this bill, LB314, out of committee and on the floor of the Legislature and urge all senators to study and give it a careful consideration. If Nebraska is going to have a workable property tax bill, it's going to be up to this Legislature to pass it and it's going to take 23 votes in the Legislature to withstand a high probability

of a Governor veto. The fate of property tax relief rests on the shoulders of this Legislature. Nebraska's property tax relief now is-- we want it now, not three or four years from now. Thank you. If you have any questions I would take them.

LINEHAN: Thank you, Mr. Schuster. Are there questions from the committee? Seeing none, thank you very much for being here. Go ahead.

AMIE KOPCHO: Madam Chairman, Senators, my name is Amie Kopcho, A-m-i-e K-o-p-c-h-o, I'm here on behalf of York Public Schools as well as the Nebraska Association of School Boards, who represent the state's 1,700 locally elected school board members. I am proudly serving my fifth year as a York School Board member. This year I am serving as president. As a school board member you wear many hats. In addition to serving my district I am the vice president of our York Housing Authority board, as well as the current president of our York County Development Corporation. My husband and I are each small business owners, we're property taxpayers, as well as ag landowners. We have raised two children in our-- in York with our youngest graduating in May. All of those are reasons I am here today to offer support for Senator Briese's LB314. The people who sit next to me in York and statewide wear many hats as well. We're farmers, bankers, executives, educators, trade

workers, etcetera, each bringing their own perspective to the good of the group. Every one of us are accountable to our constituents to make smart financial decisions while providing the children of our communities an elite education. Every one of us wants property tax relief. As a school board member we know tough decisions need to be made. There are many bills that have been introduced this session centered around property tax relief. How each impacts education and how it is to be funded vary. You've heard the ins and outs of this bill, about the broad-based coalition of Nebraska ag and education groups who have worked tirelessly to provide a solution, to propose legislation that would provide more than \$700 million in property tax relief while protecting essential public services such as education, services for the elderly, healthcare, highways and roads. I would like to focus my testimony on provisions of the bill that lift kids in all districts. The current bill invests additional revenue into a portion of the budget that helps all kids. As written, the distribution of dollars raised in LB314 would increase the reimbursement rate for special education from 51 percent up to 80 percent. In a diversely populated state where funding and formulas tend to have winners and losers, increased special ed funding is something that every single one of Nebraska's 206-- 260 districts and ESUs would benefit from, whether you are urban,

rural, quali-- equalized or unequalized. As an example, from York being able to recover 80 percent of our special ed costs will reduce our ask of property taxpayers by approximately 8.5 cents, which equates to approximately \$900,000. Spike costs can be a major factor in determining our budget. Eighteen percent of our students in York are on some sort of special education. And right now we have a couple of students that cost over \$100,000 each. Special ed is one of the biggest and growing areas of our budget. As such, this provision is incredibly helpful to our school and property taxpayers, even small districts with very few special ed kids spend a growing portion of their budget on this important part of the system. From my perspective as a small business owner, a property taxpayer, and locally elected school board member who is accountable to my constituents to make smart financial decisions, LB314 is a step in the right direction and something that all districts can get behind. Thank you.

LINEHAN: Thank you very much. Great job. Questions from the committee? Seeing none--

AMIE KOPCHO: Thank you.

LINEHAN: -- thank you very much. Now we-- that was five. So now we go to opponents. Are you an opponent?

SARAH LINDEN: Yes.

LINEHAN: OK. Good.

SARAH LINDEN: Ladies and gentlemen of the Revenue Committee, my name is Sarah Linden and I am a member of the Nebraska Vape Vendors Association and the owner of Generation V, a Nebraska-based small business with five vape stores in Nebraska employing 40 Nebraskans. Over the last five years we have been in business we have helped more than 40,000 Nebraskans to stop smoking. This bill would amend the Tobacco Products Tax Act to include vapor products. We are conditioned to believe that any cloud that someone breathes from their mouth is smoke, but vaping is not smoking at all. Vaping is not something any of us do for fun or to look cool. We vape because we want to quit smoking, live longer to be able to be around for our children as they grow up. Vaping is a smoking cessation tool and no other smoking cessation tools are taxed. In fact, the New England Journal of Medicine published a study two weeks ago showing that e-cigarettes and vapor products are 60 percent more effective than any other smoking cessation tool in helping adults quit smoking, because it replicates the oral fixation and the physical act of smoking more closely. It should not be classed as a tobacco product nor should a privilege or sin tax be applied to vaping when all vapers are trying to do is save their own life.

Privilege taxes are usually applied to products to discourage their use, but everyone should be encouraging smokers to switch to vaping. In other countries such as the UK, Canada, New Zealand, among others, the national medical associations have conducted research that supports vaping and the governments have instituted special laws to encourage their citizens to vape. The Royal College of Physicians published research in 2016 showing that vaping is at least greater than 95 percent healthier than smoking, but it's estimated to be more like 98 or 99 percent safer. Vaping and electronic cigarettes were invented by a pharmacist to help people quit smoking. They include the same ingredients as medical inhalers. The only difference is that they have nicotine, if someone chooses it, in flavoring. If the tax is adopted it would make it less affordable for Nebraskans to use vapor products to stop smoking. Most of our customers are hardworking, blue collar, live paycheck to paycheck and if vapor products are taxed on this lower economic scale group, their affordability would encourage people to not use them and to continue to smoke. If the price of vapor products--sorry, I'm trying to skip ahead--killing hundreds of thousands of Nebraskans, this would be harmful to public health. Additionally, this is a regressive tax bill, it is morally questionable to tax this already financially challenged group who are sincerely trying to improve their health and provide

those tax dollars to property owners throughout Nebraska.

Another thing that has not been addressed in this tax bill is the fact that imposing a tax on vapor products will drive revenue out of the state. Kansas is the only surrounding state to have a tax on vapor products and they only tax e-liquid, not devices, unlike this bill. Consumers will be encouraged to drive--

LINEHAN: Thank you. Thank you. Oh, I forgot to ask you to spell your name, too. I'm sorry.

SARAH LINDEN: Oh, Sarah Linden, L-i-n-d-e-n. I didn't get to finish but I have three other people who are speaking on behalf of the same thing--

LINEHAN: OK.

SARAH LINDEN: -- after me.

LINEHAN: So, so maybe they can--

SARAH LINDEN: I'm happy to ask-- answer any questions that you have and I thank you for your time.

LINEHAN: Well, thank you for being here. Do we have any questions from the committee? Seeing none, thank you very much. Appreciate it. Next opponent.

BRUCE PETERSEN: Good afternoon.

LINEHAN: Good afternoon.

BRUCE PETERSEN: My name is Bruce Petersen, B-r-u-c-e P-e-t-e-r-s-e-n, I'm vice president for an electronic contracting company, a local contractor and I'm also representing the Associated Builders and Contractors Cornhusker Chapter. I'm also on the board there. And nationally, ABC represents about 22,000 contractors. On page 2 here I want to illustrate the three different options that are available to contractors and in Nebraska today. And wanted to illustrate that the contracting environment for sales and use taxes is pretty complicated already and there's additional forms 13 17 to deal with exempt entities. And then there's special requirements laid out by the Legislature that, that carve out certain systems that we install, like closed circuit television to be a fully taxable system. And I'm in opposition of both bills and I want to highlight a couple of differences between the two of them. We're, we're opposed to the bill because they represent an increase in the sales tax rate overall. Specifically, the difference between the two-- well, they both-- they both increase the sales tax-- state sales tax rate, but LB497 actually broadens the tax base and is proposing to make labor services taxable. And right now in all three of the options

there's an option for contractors to be the final user of materials on projects and they owe the tax on the cost of materials that they consume.

LINEHAN: Are we talking about LB314? We need to talk about LB314.

BRUCE PETERSEN: Well, I am and I want to illustrate the difference. The testimony is going to be the same for both.

LINEHAN: OK.

BRUCE PETERSEN: So LB314 wouldn't change that. LB497 would and it would expand the tax base and there's no provision to account for work in process. Most contractors book six to eight months', ten months' worth of backlog, contracts have been signed, prices have been agreed to. On LB497 where the tax base would expand and now suddenly a use taxable job becomes a sales taxable job. The contractors can pass that on, but the customer is left twisting in the wind with, you know, an additional tax bill. So I wanted to highlight that so that it could be addressed in future legislation and the tone is that we're in opposition. Any questions?

LINEHAN: Thank you very much. So let me ask you a question. So you're saying anything we do here we should take into

consideration of something that's already in progress and it should be exempt maybe.

BRUCE PETERSEN: Right. And I know that there's been a broad coalition but the construction community wasn't taken into consideration and you really need to, because there's a huge block of business that's ongoing that spans months or years without any sales tax and use tax law was going to affect. And that needs to be taken into consideration.

LINEHAN: Thank you. Are there other questions from the committee? OK. Thank you.

BRUCE PETERSEN: All right, thank you.

LINEHAN: Uh-huh. Go ahead.

MONTE WILLIAMS: Madam Chairperson, members of the committee, my name is Monte Williams, M-o-n-t-e W-i-l-l-i-a-m-s, and I'm here today testifying on behalf of Altria and its affiliates, Philip Morris USA., John Middleton, and U.S. Smokeless Tobacco.

Regarding both LB314 and LB397 my testimony will be the same as I'm only dealing with the cigarette part of this issue. My comments and opinions are based on a 30-year career with the State Board of Equalization in California where I held the positions of chief of excise taxes and chief of criminal

investigations. I have over 20 years' experience in the administration of state tobacco taxes and served on the Federation of Tax Administrators Tobacco Tax Section as their president and on the executive board until I retired. Since leaving government my practice is almost exclusively dealing with tobacco tax issues. I'm going to try to cover three issues today: revenue estimates on cigarette increases; the impact of this proposal on the revenue and cross-border issues; and the impact on the bill consumers. First off, revenue estimates are very tricky with cigarette tax increases, because it's based on a declining market. For example, Nebraska's cigarette tax revenue has declined 22 percent over the last ten years. You'll be basing a revenue in this bill on a declining market and the impact of this increase will impact what revenue you get in the future. To illustrate how difficult this is, we did an analysis and 85 percent of the revenue estimates made by states and jurisdictions that increased taxes missed their mark; they were below what was anticipated. In addition, several of them actually collected less revenue than they did before the increase. A material part of the shortage is due to cross-border issues and consumer attitudes. Cross-border issues are a big, important part of this increase. If you adopt this increase your tax in here-- in Nebraska will be 61 cents to \$1.97 per pack more than your neighboring states. This is a significant

difference when you think about it on a per pack, but when you place it on a ten-pack carton or a 50-carton case the money becomes significant. Based on my experience in California as chief of criminal investigations, this will cause smokers to change their behavior and it will also change their attitudes towards paying taxes. This will begin with the thing we call casual smuggling, where a neighbor might be going to Missouri offers to pick up some cigarettes for his friends. However, there will be too much money involved to stay casual for long. There also will be issues with tribal sales because this tax differential will exist there. And just to highlight this, for example, a 20-foot U-Haul-type truck that goes to Missouri and buys tax-paid cigarettes and comes back to Nebraska will have an advantage for taxes of almost a half a million dollars. A Ford Taurus's trunk will hold enough cigarettes to be worth nearly \$10,000 as a tax advantage in Nebraska. There's no language in this proposal to deal with this issue and I'm certain the Revenue Department isn't adequately [INAUDIBLE] to deal with this, because I can tell you it becomes a big issue. The last topic I'd like to talk is the impact on consumers. This is a 230 percent increase in tax. CDC estimates 15.4 percent of Nebraskans are smokers. Therefore, this entire tax increase on cigarettes will fall to this very small percentage of your population. And many of those, the majority are in lower income.

For example, 55 percent make less than \$25,000 a year. For these reasons are outlined, I believe this increase is not wise and shouldn't be adopted.

LINEHAN: OK.

MONTE WILLIAMS: Thank you for your time.

LINEHAN: Thank you.

MONTE WILLIAMS: Any questions as yet?

LINEHAN: Yes. Thank you very much. Are there questions from the committee? What percentage of Nebraskans did you say are smokers?

MONTE WILLIAMS: Fifteen point four percent, according to CDC.

LINEHAN: And do you know what that was ten years ago? It's okay.

MONTE WILLIAMS: No, I don't. I could find out and get it to you.

LINEHAN: That would be nice. Fifteen point four percent?

MONTE WILLIAMS: Right.

LINEHAN: OK. All right. Other questions from the committee?

Thank you very much for being here. Appreciate it.

TIM BOWEN: Seems like there's a race for this chair here this afternoon. My name is Tim Bowen. And I represent Aloha, which has 12 retail stores. That's Tim, T-i-m B-o-w-e-n.

LINEHAN: Thank you.

TIM BOWEN: I've addressed the committee several years ago regarding the 18-year-old minimum age for vaping. Nothing-- nobody is a worse critic about smoking than an ex-smoker. I am that person. Smoking is the biggest avoidable cause of death and disability and social inequality and health in the United States. Provision of the nicotine that smokers are addicted to without the harmful components of deadly tobacco smoke can prevent most of the harm from smoking. Nicotine replacement therapy is most effective in helping people stop smoking, according to the FDA. Vaping is 60 percent more effective than any other nicotine replacement therapy. We're talking about patches, Nicorette, the gums. E-cigarettes are marketed as consumer products and they're proving much more effective than any other nicotine replacement therapy. Scott Gottlieb, the head of the FDA, stated just in the last ten days this very fact; they've actually known it for quite a long time. Evidence is available and to date indicates that e-cigarettes are being used almost exclusively as safer alternatives to smoke tobacco by confirmed smokers who are trying to reduce harm to themselves

and others from smoking or to quit smoking completely. There is a need for regulation to reduce direct and indirect adverse effects of e-cigarette use. But this regulation should not be allowed significantly to and hindered-- in-- inhibit the development and use of harm reduction products by vapers. We just can't afford to lose the 86,000 customers that we have had that we have switched off of tobacco. If you want to know why smoking is down in the state of Nebraska, this group is part of it. We feel that we have changed the lives of approximately 4 percent of the total number of Nebraskans that were smoking. So smoking has been reduced to 14 percent. In answer to your question, it was about 18.5, 18.7 percent when I started in this business almost seven years ago.

LINEHAN: Thank you very much. Appreciate you being here. Are there questions from the committee? Seeing none, thank you very much.

TIM BOWEN: All right.

LINEHAN: Next opponent. I'd like to thank our pages for doing a knock-out job today. They are running as fast as they can. Go ahead.

JOE MURRAY: Senator Linehan, members of the Revenue Committee, my name is Joe Murray spelled J-o-e M-u-r-r-a-y. I'm here as the

beleaguered and overtaxed property owner and I must oppose LB314 as a major tax increase with no guarantee that taxpayers will eventually pay less in overall taxes. Many will pay more. Alone, additional tax credits to the Property Tax Relief Fund only a slowed, going away train headed over the cliff, rather than bringing real relief Oh, it does reduce the amount I would pay otherwise, but for most of us we still write a bigger check to the county treasurer every year, because our assessment method is a cash cow for bigger government and higher taxes. What difference does it make if I go over the cliff at 100 miles an hour 80 miles an hour? I'm going to die anyway unless I put the brakes on and stop before I go over the cliff. The Legislature needs to slam on the brakes. LB314 is not a solution to the real problem in the state, which is overspending, both the state and local level. Over the past 50 years state spending has increased by 383 percent, adjusted for inflation, while the population has only increased by 31 percent. This is real growth in government of 7 percent a year. This is unsustainable. Local spending is no better. Since 1980 we have seen an increase of property tax collection from around \$700 million per year to over \$4 billion per year. This is an average of around 5 percent per year with even higher numbers in recent years, especially on those of us that own farmland. Overall spending on education, Nebraska is the 18th highest in the nation. Spending is well over 12K per

year per student, which is well above the national and regional averages. Adjusted for cost of living, public school teachers are the 13th highest paid in the nation. According to respected Creighton Economics Professor, Ernie Goss, and I quote: The source of our high property taxes is overspending by local government and schools. We are spending \$362 million per year more on K-12 education than surrounding states, \$93 million more on higher education with better results. Ernie Goss. The numbers speak for themselves. The main reason our property tax and overall tax burden is as high is because we spend too much. At best, LB314 is putting a Band-Aid on a deep wound that needs sewn up and closed. At worst, it will just throw salt in the wound by increasing our overall oppressive tax burden, because it does nothing to control local spending. We need more controls on revenue, spending, and assessments on local government instead of continuing to cover for local government by returning to unsustainable levels of state spending, the reduced private sector earnings which must grow to pay for government. It is time for you as a Legislature to step up and provide real solutions instead of trying to prop up the same failed system that has grown government on the back of taxpayers. The backs are starting to break. Good people are fleeing the state. Fairness dictates government putting the brakes on spending so

taxpayers pay less and have more to spend or save so they see--
as they see fit.

LINEHAN: Thank you. Thank you very much, Mr. Murray. Are there
questions from the committee? Thank you for being here. Now we
will go to neutral, one neutral. All the neutral people leave?
We have a neutral. OK.

HOBERT RUPE: I figured somebody would get here before I did.
Good afternoon. Senator Linehan, members of the Revenue
Committee, my name is Hobert Rupe, H-o-b-e-r-t R-u-p-e, I have
the privilege of serving as the executive director of the
Nebraska Liquor Control Commission and we are testifying neutral
in this proposal today. Without going too bore-- bore-- too
boring on this, you know, the commission has always been neutral
on the tax rates. That's the Legislature's purview. We just
collect it. I am prepared to answer any questions about how we
would compare nationally. I do have some experience with this. I
am a former president the National Conference of Liquor
Administrators [SIC] so I could sort of answer and questions on
that one. The issue that we do have-- and it's sort of hidden in
our fiscal note a little bit. Our, our expect-- our expectations
of the revenue-- and this is on the bill not on Senator Briese's
amendment. I have not had the privilege of looking at that yet.
We think that you'll probably hear some testifiers after me

coming forward saying that they think that if you raise the tax by this you'll probably change behavior. And some would say that's a good thing, and perhaps it is. I always, always look at the dark side, 'cause that's what I have to do as a regulator, that they might be also increase the negative side. We do have a problem right now with illegal and legal transportation of alcohol into the state from other-- our neighboring states. You can currently bring in nine liters per adult per household per month. Nine liters sounds like a strange number until you realize it's a case of 750s, a case of wine. We have had cases where licensees are-- in Omaha area have become in trouble with their wholesalers and were utilizing the Sam's Club over in Iowa to purchase their alcohol in violation of the Nebraska Liquor Control Act. Our concern is that if you are so much higher than your neighboring states we might see an increase in both legal-- in other words somebody buys a couple of extra bottles if they're over in Iowa--and also illegal. They might be bringing large amounts because they figure, if I'm going over there I'm going to bring it back. That's-- I can't tell you how much-- that would be me being-- trying to be a soothsayer. It would be a concern we would have that would be a possible-- possibility for criminal activity, because if you do that you're clustering misdemeanors. And also if you're a licenseholder if you start buying across there, then you're also in violation of the Liquor

Control Act. So with that I'd be happy to answer any questions about enforcement and liquor taxes.

LINEHAN: Thank you very much for being here. Are there questions from the committee? Seeing none, thank you very much.

HOBERT RUPE: Thank you. And that-- my testimony would be the same for Senator Friesen's bill following, so.

LINEHAN: OK. Thank you.

HOBERT RUPE: The only difference is-- our, our [INAUDIBLE] is slightly different because of the way it's-- under Senator Briese's bill we have to create a new stream, whereas Senator Friesen's bill, it continues to just go to General Fund.

LINEHAN: OK. Thank you very much. And you're proponent, because we're going back to proponent.

JOHN HLADIK: Yes. I've been ready.

LINEHAN: All right.

JOHN HLADIK: I've been making a tally. Good afternoon, Chairperson Linehan and members of the committee. My name is John Hladik, that's J-o-h-n H-l-a-d-i-k, and I am testifying on behalf of the Center for Rural Affairs. We recognize that farmers and ranchers often bear the greatest tax burden and our

objective is to support them, but also to support smart policy that benefits all rural communities. And one element that's gotten lost in this debate is the benefits of this bill to all rural people. We know it will benefit farmers and we'll hear more about that and that's tremendously important. But we also know that residential property taxes in rural areas have a chance to decrease with this bill, too. For example, in the town of York we can expect some residential property taxes to decrease by 30 percent. And there's a lot to like in this bill if you're a rural individual, whether you're a farmer or someone who is just trying to make a living in one of our wonderful rural Nebraska communities. But to get there, however, we as a state need to adapt. We know that Nebraska's overall trend remains reliant on agriculture, but it's important to note that recent trends show a move away from dependence on manufacturing to a goods- and knowledge-based service economy. In the first handout you received on the topic of LB314 has a table right up in the beginning. I want to talk about that for a moment. As you can see in that first table, according to the US Department of Labor, in 2007 there were about 957,000 nonfarm work force jobs in Nebraska. And by 2017, this grew to 1,018,000, which is a rate of about 6.4 percent. Between 2007 and 2017, the number of manufacturing jobs fell from 101,000 to 98,000. So we can see that, that growth of 6.4 percent is not uniform among sectors,

the jobs in the services grew while those in manufacturing became scarcer. While those manufacturing jobs fell by about 3,000, jobs in education and healthcare services grew from about 129,000 to about 154,000. Leisure and hospitality grew from 82,000 to 91,000. And total manufacturing jobs fell about 3 percent, while service jobs grew at a rate of 16 percent. And the second table on there, there's a graph and then there's a-- there's a table. The latest Nebraska Department of Labor's economic insight really reinforces this data and reinforces this picture where the state's going and what we are doing. We know as growth in nonfarm employment is disaggregated and projections are applied our financial leisure and hospitality and education service industries are projected to see significant growth. But we aren't adapting our tax code in time and that puts us at a disservice and certainly harms our revenue and that's where we are today. LB314 seeks to make an adjustment by imposing a tax upon the services for Nebraskans, including rural residents are spending their expendable incomes. And I'll note that this approach is superior to some of the regressive proposals we'll see in bills, such as LB497. By drawing in added state tax revenues, Nebraska can look to modernize its tax system while also providing immediate relief.

LINEHAN: Oh, excuse me. You had me so involved in my charts-- that was very good. You ran your red light.

JOHN HLADIK: It's a trick.

LINEHAN: Very good decoy. No, whoa, whoa, whoa. Do we have any questions from the committee? Senator Friesen, any questions? I have a question. I do love charts. So on the first chart, education and health services. That's a huge increase in ten years in employment. And I would also question-- whether it's education, which would be publicly funded for the most part and health services, which are publicly funded in a large part and then insurance. So-- and then if everybody else is-- well, I guess leisure and hospitality which generally tend not to be high paying jobs. Manufacturing, we dipped a little bit. So that's problematic.

JOHN HLADIK: Yeah, it is. It is. There's a lot to know here. I think what we see is just classic rural demographics. We know what's happening, we know that we're getting to be an older and sicker demographic in the rural areas generally, but we want to attract those families and we want to see those education jobs increase a bit, because we want it to be a welcoming place to live.

LINEHAN: Well, at it-- can you break out the education and health services or is that not possible?

JOHN HLADIK: I cannot distinguish between the two. This is just US Department of Labor numbers and they won't [INAUDIBLE].

LINEHAN: And they put those two together, because it used to be one committee--

JOHN HLADIK: Yes, exactly.

LINEHAN: -- which it's not anymore. OK. All right. Thank you very much. Other questions? Thank you for being here.

JOHN HLADIK: Thank you for the question.

LINEHAN: Go ahead.

JINA RAGLAND: Good afternoon, Chair Linehan and members of the Revenue Committee. My name is Jina Ragland, that's J-i-n-a R-a-g-l-a-n-d. I'm here today testifying on behalf of AARP Nebraska in support of LB314. AARP is a nonprofit, nonpartisan organization that works across Nebraska to strengthen communities and advocates for the issues that matter most to families and those 50-plus. Assuring that our members are financially secure and can age in their own homes are key components of our advocacy agenda. AARP strongly believes in a

society in which all people live with dignity and purpose. To help achieve this goal AARP Nebraska believes that taxes should be equitable and consider people's ability to pay, produce revenue to sustain important programs for individuals 50 and older and their families as well as all Nebraskans in need, and be simple for taxpayers to understand and to comply with. AARP encourages investing in the people of Nebraska by pursuing tax policies that foster economic growth and that help to preserve funding for essential services, such as public safety, dependable infrastructure and affordable health services that Nebraska families, veterans, and businesses rely on. For these reasons AARP Nebraska supports a reform proposal like LB314, which relies on diverse tax strategies, including individual income taxes, corporate or business taxes, sales taxes on both goods and services, and fair property taxes to create an adequate, equitable and efficient revenue stream for our state's economic well-being and continued growth. In addition, discussions of Nebraska's tax structure should also include maintaining and expanding critical tax credits or other relief for low-income households as LB314 does. We applaud the Legislature's decision to discuss this important issue in a way that allows all stakeholders to offer thoughts about what types of new proposals could be implemented to reform our state's tax system in a way that will create economic opportunities for all

the people of Nebraska. AARP Nebraska supports our state's seniors who have sustained our work force, cared for our children, volunteered in our neighborhoods, and protected our country. Their presence continues to add value to Nebraska's economy. According to Longevity Economy, a report prepared by Oxford Economics for AARP measuring the collective economic contributions by people ages 50 and over, Nebraskans over 50 create an economic impact much greater than their portion of the population. In fact, Nebraskans in this age cohort generated 42 percent of the state's gross domestic product in 2015, totaling \$48.9 billion dollars. Moreover, the report found that state residents 50 and older made up just 34 percent of Nebraska's population in 2015 but supported 45 percent of jobs in the state, mainly in the area of education, health services, trade, transportation, and utilities, and leisure and hospitality. Further, Nebraska's 50-plus paid 42 percent of state and local taxes. We appreciate the opportunity to comment and look forward to tax reform that creates financial security and economic opportunity for all and keeps in mind the continuing significance our Nebraska seniors.

LINEHAN: Sorry. Thank you. Questions from the committee? How does this help seniors? You're raising income-- I mean, not income-- sales taxes.

JINA RAGLAND: It's the half a percent, but we also have the earned income credit that would offset some of those types of things, also. And seniors are also not just 60, we're talking 50 to 64 and is, is really the area that this would benefit the most in our analysis.

LINEHAN: But, but how? I'm sorry. Because they're not-- you're talking about-- they're not-- I mean, according to your own figures here they do-- financially they're a big engine. So how does this help them?

JINA RAGLAND: Because we still have 50-plus members of the-- of Nebraska that are still contributing members of society, whether they be in the ag community or any of the other sectors that are contributing with high property taxes.

LINEHAN: So you're-- so you're saying seniors-- it's the property tax deduction, not the sales tax increase?

JINA RAGLAND: Correct.

LINEHAN: OK.

JINA RAGLAND: The sales tax increase-- you know that's not really an area-- we don't prefer that but I-- and when you look at the whole package. That's a piece of it that will add to the puzzle I think that resolves some of the problem that we have.

LINEHAN: OK. Thank you. Other questions? Thank you for being here.

CHRIS WAGNER: Good afternoon, Madam Chair, members of the committee. My name is Chris Wagner, C-h-r-i-s W-a-g-n-e-r, and I'm the executive director of Project Extra Mile, a nonprofit working to prevent alcohol-related harms across the state of Nebraska. I'm here in support of LB314 and LB497 and I'm going to speak to the alcohol tax component of these bills and also the economic costs, specifically. Others that follow me will touch on the public health and safety costs. At first blush the proposed rates seem outrageous considering our region and the nation as a whole. However, we do have major producers in neighboring states and a powerful and organized lobby present in every state capital. The proposed increases also seem high because they're levied per gallon at the wholesale level. If the tax is broken down per drink the increases are minimal. The important thing to remember is that the tax is not targeting businesses, it's targeting the 21 percent of our population that drinks excessively and calls-- causes all of the alcohol-related harms in our state. Abundant scientific literature confirms that these excise taxes are passed on to the consumer. A peer reviewed study found that our state had \$1.6 billion of economic costs in 2010 alone, \$491 million of which were costs to

government. Broken down per drink, that amounted to \$1.61 per drink of which 68 cents was paid by government. In essence, Nebraska businesses and taxpayers are subsidizing the alcohol industry. In contrast, the bills before you today propose to raise the current amount drinkers pay from between three to four cents to ten cents per drink. And the good thing about these taxes that are that the excessive drinkers will pay 82 percent of them. The industry is actually enjoying its lowest tax bill since Nebraska last raised alcohol taxes in 2003 due to the craft brewers' successful effort to cut federal excise taxes from \$7 to \$3.50. According to 2017 Nebraska Craft Brewers Guild data, all craft brewer production was eligible for the reduced federal rate. These rates sunset at the end of this year, but there's already federal legislation that would extend those rates permanently. The craft brewers have complained that taxes are job killers and may force them to relocate out of state. But Bureau of Labor Statistics data before and after the 1991 federal tax increase found that the industry added 1,400 jobs after the tax took effect. Maryland added a 3 percent sales tax on alcohol in 2011, yet the number of craft breweries operating in the state increased each year and by 2017 was at an all-time high of 73 compared to 25 prior to the increase. Illinois increased its rates in 2009 and sales of super premium and craft beer continued to climb following the increase. In closing, I

hope that this committee will join the 52 percent of Nebraskans who support increasing alcohol taxes by including increases like those in LB314 and LB497 in whatever property tax bill the committee advances to the floor. Thank you for your consideration. I'm here to answer your questions.

LINEHAN: Thank you for being right on time. Are there any questions from the committee? Seeing none, thank you for being here.

CHRIS WAGNER: Thanks.

LINEHAN: Good afternoon.

VERN JANTZEN: Good afternoon, Senator Linehan and members of the committee. My name is Vern Jantzen, V-e-r-n J-a-n-t-z-e-n. I am a farmer from Plymouth, Nebraska, and I thank you for the opportunity to visit with you this afternoon about LB314. I am currently serving as the president of the Rural Response Council of Nebraska. The Rural Response-- Rural Response Council is made up of churches and farm organizations and public agencies that are concerned with the spiritual, emotional and financial well-being of rural Nebraska. Our organization began as a response to the rural crisis of the 1980s and canu-- continues to provide spiritual, emotional, legal, financial counseling, and mediation services to rural Nebraskans in need. Our primary outreach to

those in need is the nation's longest continuously operating hotline phone service. We are also able to offer a limited number of vouchers for visits to mental health counselors. The combination of five years of below cost of production returns along with the large increases in property taxes and other expenses had the hotline setting new monthly call number records for four months in 2018. From December 2017 to November 2018 the hotline received 3,616 calls. Two hundred fourteen of these calls were time-consuming financial distress cases. A total of 2,015 vouchers were also issued during the same timeframe. An article in the February 6 issue of the Wall Street Journal reported on a disturbing trend and I quote: A wave of bankruptcies is sweeping the US farm belt as trade disputes add pain to the low commodity prices that have been grinding down American farmers for years. Throughout much of the Midwest, US farmers are filing for Chapter 12 bankruptcy protection at levels not seen for at least a decade, a Wall Street Journal review of federal data shows. In my testimony I give you the breakdown for three different districts and all those numbers are up significantly for bankruptcies from what they were ten years ago. So Nebraska's economy is driven by agriculture. When agriculture was in crisis in the 1980s the Legislature worked to find ways to help address the crisis that was occurring. The time has come once again for the Legislature to help deal with

the current crisis confronting agriculture. LB314 is a good plan developed by a diverse coalition to rebalance the tax load in the state while also ensuring that our schools will continue to receive adequate funding and it deserves your support. Thank you and I would be happy to answer any questions you might have.

LINEHAN: Thank you. Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. And thank you, Mr. Jantzen, for testifying today. In the fifth paragraph of your testimony--

VERN JANTZEN: Yes.

McCOLLISTER: --you talked about what happened in 19-- in the '80s when we had another farm crisis. But what sorts of things occurred then that you think should occur now?

VERN JANTZEN: Well, I think we should deal with the property tax issue. That's why I'm here today. That has ramped up over the last couple of years to the point where when you have that as a fixed cost, what do you do to address that situation? There are people that said, I can't-- I can't balance this anymore and so I have to, to quit or do something different. In the article in The Wall Street Journal they talked about a farmer from Byron, Nebraska, who had said, I have weathered a lot of these storms but this one is going to kick my butt, and he is filing for

bankruptcy. And so what we need to do is look at-- I guess there's other things that, that I have thought about, too. I used to milk cows, but I quit in 2010 because I couldn't make it work anymore. I was always a little disturbed that there were efforts made by the extension service and other entities in Nebraska to bring California dairies in and giving them breaks to establish a dairy here. Nobody gave me any breaks. I was supposed to soldier along. And so I don't know if there are things that we can do in terms of-- this is going to hit beginning farmers really hard. There is a report that just came out from the Center of Rural Affairs that talks about the number of beginning farmers. I think they used 2012 data and farmers from 55 on up are over half of the population of Nebraska farmers. If you go back to the 1950s that segment of the population was only one-third of the-- of the makeup of farmers in the state. And so we are-- we are at risk of having a hole in this state of just slowly getting farmers older and older and nobody coming in to take their place or not enough, I think.

McCOLLISTER: Tell me about the volume of calls on your hotline. Has that increased over the last four or five years?

VERN JANTZEN: Substantially. I don't know if it-- if you can go back four or five years, but if you go back at least three years that's when-- if you have one bad year most people can figure

out a way to get around that. But as the, the severity continues year after year, that's when people get into a bind. And so it's, it's not that all of a sudden, you know, they say wake up one morning and say, oh, I've got to quit. They'll try a number of things and then they finally get a call from the banker and says, I can't renew your note. The calls that we get the highest volume on are in the beginning part of the year when people have to go to the-- talk to the banker about having an operating note for the coming year and the banker says, well, I looked at what you did last year. I looked at what's going to-- what the prices are projected to be for this year and I don't see how we can safely loan you money anymore. And so we're going to have to cut you loose.

McCOLLISTER: Thank you for your testimony, Mr. Jantzen.

VERN JANTZEN: Sure.

LINEHAN: Thank you, Mr.-- Senator McCollister. Other questions from the committee? Seeing none, thank you very much for being here.

VERN JANTZEN: Thank you.

LINEHAN: Next proponent.

JASON ALEXANDER: Good afternoon.

LINEHAN: Good afternoon.

JASON ALEXANDER: Madam Chairwoman and the committee, happy Valentine's Day from Beatrice Public Schools. My name is Jason Alexander, J-a-s-o-n A-l-e-x-a-n-d-e-r. I'm here representing the STANCE organization and Beatrice Public Schools in support of Senator Briese's LB314. A little personal history for you to begin. I began my education career as a teacher in a small school sergeant-- in Sargent, Nebraska, Class D2 school. I then became a Class 1 administrator at Burwell Elementary. I was a bur-- an elementary principal for six years and now been a superintendent on what's going on nine years. The reason I give you that history is because I want you to know I've been in an unequalized district and now I'm in an equalized district. An unequalized district with a levy of 83 cents, now an equalized district with a levy of \$1.39 general fund. I believe our state senators, prior and present, have been statesmen and women acting in the best interest in their hearts of our children. I've watched legislation introduced and implemented year after year that has changed the TEEOSA formula to fit the state budget, growing at 3.6 percent spending growth increase, while decreasing our state per pupil costs by 2.3 percent. I understand your challenge is to correct the overreliance on property taxes. This is the call from our property owners and as

witnessed at the Beatrice Town Hall hearing by Governor Ricketts, our taxpayers understand the three-legged stool, property tax, income tax, and sales tax. They also know that the stool needs balanced. They know income and sales tax has been averted through the property tax bubble that we knew would burst at some time. They have paid the lion's share of support, especially when we all-- like I said, we all knew the bubble would share. Senators Briese-- Senator Briese's bill has unified the major ag sectors, the major educational sectors, and brought them together with the solution. One area we have all agreed in-- on that we could use the extra funding for is special education. As we found-- heard in Senator Groene's discipline bill, we need to take care of these students as well as all of our students. In my district alone, one in every four students is identified as special education. That's 25 percent of our students. We are implementing strategies-- yes, 25 percent. We are-- we are implementing strategies through the multitiered system of supports to reduce that number as much as possible and integrate these students back into the general education classroom. Since 2009, I watched the TEEOSA formula be twisted and molded into a piece that fits the puzzle instead of the piece that was intended for the puzzle. We compare ourselves to other states and we say we're 19th in the nation in our income-- input costs per pupil. What we disregard is that these

comparisons don't include the sparsity of the-- of our state, which is on an economy of scales we are spending far less per student. I urge you-- my light is red-- so I urge you to look at this bill as a vehicle to move this issue forward seriously in our state to reduce property tax values and continue to fund education.

LINEHAN: Yeah, I don't want to be mean. I've already gotten a text saying I seem mean when I'm telling people.

JASON ALEXANDER: You're not. I understand your job.

LINEHAN: If I let everybody go over, I'm mean to everybody else. I don't want it to mean, but we got to stick or we'll be here tomorrow.

JASON ALEXANDER: Exactly.

LINEHAN: OK. Are there questions from the committee? Senator Groene.

GROENE: What was your school district?

JASON ALEXANDER: Beatrice Public Schools.

GROENE: Yeah, and you-- thank you. So then you would lower your levy, because what is it, 50 percent of your special education is coming out of your general fund taxation.

JASON ALEXANDER: I would say that lowering the levy would depend on what happens with the state aid formula, Senator.

GROENE: So are you equalized?

JASON ALEXANDER: We are equalized?

GROENE: So you don't-- earlier an individual brought up the fact you don't have to have a minimum levy anymore. So now if you're afraid-- a couple million dollars-- you're a pretty good sized district for special ed. Wouldn't you be able to get some of that in-- because you've been handling the situation now and special ed, have you not? You're treating every child, giving him help?

JASON ALEXANDER: We-- of the one in four students that are identified special education in our district, we do the absolute best we can to provide them the most help we possibly can. We, like many other districts in our state, also have students that are in wheelchairs, brittle diabetics, need extra attention that these dollars for special education reimbursement would help tremendously and help us continue to provide that care that we need to.

GROENE: So we provide additional spending that you would want to offer not offset dollars that you are spending property taxes for now?

JASON ALEXANDER: I'm not saying we would necessarily increase the amount that we spend. We are a district-- currently we spend-- our spending since-- in the last six years has been held steady. And Senator Linehan addressed the ARRA funds back in 2010. In the last six years our district has had-- held spending at less than 2 percent.

GROENE: So that wouldn't have included the ARRA?

JASON ALEXANDER: Correct.

GROENE: Thank you.

LINEHAN: Other questions from the committee? Thank you-- is it Dr. Alexander?

JASON ALEXANDER: No, just Jason. Doctor, coming.

LINEHAN: OK. Thank you. Congratulations on that. On your-- in your third paragraph I don't-- because all the numbers get very confusing. So last line, while decreasing state per pupil cost by 2-- I don't understand that. I've watched-- change TEEOSA formulary to fit the budget, spending growth increases while

decreasing per pupil costs. I don't think TEEOSA has ever gone down so I don't know what that means.

JASON ALEXANDER: TEEOSA has gone down 4.68 percent in our district. We've, we've--

LINEHAN: In your district.

JASON ALEXANDER: Yes.

LINEHAN: OK. OK. Not overall.

JASON ALEXANDER: Correct.

LINEHAN: I get. OK. That, that makes--

JASON ALEXANDER: Sorry.

LINEHAN: Yes, I know. You're, you're one of the schools in the middle. You're not getting a lot of equalization aid. You're not getting a lot back from the tax credit. So you're like Norris and York. and--

JASON ALEXANDER: Yes. And we--

LINEHAN: -- you sit-- you're a town surrounded by farmland and they're in other districts.

JASON ALEXANDER: Exactly. And we don't benefit from our huge amount of income tax allocation either.

LINEHAN: OK. Other questions? Thank you very much for being here.

JASON ALEXANDER: Thank you very much.

LINEHAN: OK. Where are we? One more proponent? No, we're going to opponents. Now we go to opponents.

JIM OTTO: Senator Linehan, mem-- members of the committee, my name is Jim Otto, that's J-i-m O-t-t-o. I'm president of the Nebraska Retail Federation. I'm also a registered lobbyist for the Nebraska Retail Federation and a registered lobbyist for the Nebraska Restaurant Association. And I am here to testify in opposition to LB314 and LB497 for both associations. It's not that we don't-- we do agree with the problem. And, unfortunately, I'm not here with a solution but I do want-- I do want to point out, you know, the inequity in property tax. I do want to point out a-- an inequity that I would assume many of you aren't aware of because this has been something we've been dealing with for many year-- since 2002. This fiscal note I handed you, it says that there's a \$12 million loss absorbed annually by Nebraska retailers and restaurants in the collection of sales taxes. I don't think a lot of people recognize this.

This is due to the fee that's charged on-- charged by credit card companies on the sales tax portion. And this is not an industry-generated figure, but the state of Nebraska fiscal note on LB186 in 2009. We actually had a bill introduced in 2009 that would just reimburse the credit card portion of the sales tax. And in 2009 as you see down here it was \$8 million that it would cost the state to just reimburse the people who collect sales tax on credit cards. And if you interpolate that out to 2012, it's at least \$12 million today. So I just wanted to make sure that the committee was aware of that. We recognize the inequity in property tax, but there is definitely an inequity and another challenge, I guess, for the state in collecting sales tax for retailers. And as we increase sales tax, this inequity increases because in 2002 the reimbursement rate was one half of 1 percent on all say-- on all taxes collected and that was limited to \$75 a month. And we've never been able to get it back. Supposedly was coming back in better times, but that's never been able to do. So the last thing I would just point out is with the new amendment I would assume that that's 3 percent on a-- on a beer. If you ordered in a restaurant the beer with occupation tax, with a 6 percent state tax, with a 1.5 percent city tax, a beer in Lincoln and Omaha and that 3 percent, would be taxed at 12.5 percent, which is significant. So just another thing for you to think about. Thank you for your time.

LINEHAN: Thank you, Mr. Otto. Are there questions from the committee? So just so I understand this, so you're saying that you had to pay the credit card company-- the retailer, not you. The retailer would pay some credit card company for collecting the sales tax.

JIM OTTO: Correct. Ten dollars sales tax there's probably 30 cents-- I know 30 cents doesn't sound like much but 30 cents probably goes to the credit card company.

LINEHAN: Hundreds of millions of dollars as it adds up.

JIM OTTO: Yeah.

LINEHAN: OK. Thank you for bringing it to our attention.

JIM OTTO: Thank you.

LINEHAN: Oh, wait a minute. Senator McCollister has a question.

McCOLLISTER: Is the-- good to see you, Mr. Otto. Is the arrangement in Nebraska unusual or unique?

JIM OTTO: No. Many states reimburse-- many states reimburse the retailer more for collecting, but the credit card situation is the same across the board.

McCOLLISTER: Thank you.

LINEHAN: So but-- thank you Senator McCollister. So basically-- wait a minute, Mr. Otto. So basically, we used to pay-- we used to reimburse you-- reimburse retailers for collecting and we no longer reimburse [INAUDIBLE].

JIM OTTO: You do, \$75 a month maximum. Used to be one half of 1 percent of all taxes collected. Now that's capped at \$75 a month. It doesn't matter if you collect \$10 million in tax, you're going to get 75 bucks a month.

LINEHAN: I got it. OK. Thank you.

BOB HALLSTROM: Chairman Linehan, members of the Revenue Committee, my name is Bob Hallstrom, H-a-l-l-s-t-r-o-m. I appear before you today on behalf of the Nebraska Bankers Association and the National Federation of Independent Business in opposition to LB314. I've also signed in, in that capacity on LB497. I was growing quite comfortable in what I thought was the on-deck chair and I appreciate the opportunity to get up here for just a moment. The bankers weighed in yesterday on LB276 and would obviously be opposed to the provisions about LB314 that address the S corporation exclusion for out-of-state income. In, in expressing our opposition, I certainly want to, to recognize that the members of both organizations are certainly mindful of the magnitude of the problems associated with the level of

property taxes faced by agricultural, commercial, and residential property taxpayers. And in closing I'd just echo back to what Mr. Slone said as the first opposing witness, that we have to look at all aspects of this issue. Senator Linehan, I think you mentioned that there was a pattern or a practice that for 30 years we've spent more on, on education and we haven't quite grappled with the problem yet to solve it. So I think looking at spending, looking at state aid to schools, and recognizing that raising and providing more revenue is not going to address the problem. I think Mr. Slone said appropriately that we need to address that issue and then perhaps some people will talk about whether or not there's other issues that need to be on the table. Be happy to address any questions.

LINEHAN: Thank you, Mr. Hallstrom. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So what, what is your suggestion to fix the problem?

BOB HALLSTROM: Senator, I don't know that I-- if it was easy-- if it was an easy solution I think people smarter than me would probably have taken care of it long before this. I think that once we put all of the issues on the table and bring all the parties together to see what, what different folks think about

different solutions or different aspects of the solution-- one of the tough things I think that we all grapple with and particularly this committee in the Legislature is, you may have some bills that rein in the levy limits, spending caps, things of that nature, and you'll probably just shift the deck chairs and we'll have different people on the supporting side and different people on the opposing side. And that's the extreme difficulty with this issue is, both of those sides of the equation probably have to be addressed at some point. But until we get a handle on the-- on the spending side from our perspective it's hard to, to discuss any, any further.

FRIESEN: Are you going to testify on LB497 also?

BOB HALLSTROM: I put my testimony in there and I-- and I admit there's some issues in there that address some of those concerns that, that I think need to be addressed jointly.

FRIESEN: OK. So I'm-- do you think we can cut our spending enough to solve our problem?

BOB HALLSTROM: That's a tough question, Senator. I think the magnitude of the problem may, may be greater than that. But and again, I think until we get to that point where we have a resolution on that side of the equation it's kind of hard to, to

start talking about how we can, can raise revenue to get ourselves out of the problem.

FRIESEN: Well, I mean, the theme I'm hearing, I mean, we-- it's easy to come and oppose something and just say, we can't do it. But there hasn't been any solutions presented other than raise revenue or else we cut spending by that much. And I, I've looked at this for four years and I can't see that we can cut spending that much. So what revenue should we raise in order to do something? I mean, maybe you can say we're raising too much, not raising enough. Where do we go to get it, because obviously we can't cut spending enough. So where's the balance? What, what, what do we do?

BOB HALLSTROM: And I think, Senator, it would be presumptuous of me to say there's certain types of revenue that just because they don't affect me that I'd be up here in the chair telling you where you ought to look for that. You know, it's go get the guy behind the tree type of attitude and I don't want to get into that. But certainly the clients that I represent would be more than happy to, to continue to dialogue on what those avenues might be and, and perhaps we can just keep moving forward.

FRIESEN: I appreciate that.

BOB HALLSTROM: Thank you, Senator.

LINEHAN: Any other questions for Mr.-- excuse me. Thank you, Senator Friesen. Other questions for Mr. Hallstrom? Senator Groene.

GROENE: But on an economic model it's, it's not an apples to apples. You're only spending-- sort of to be a politician, saying you're only spending \$10 of \$12 billion statewide for property, income, and sales tax, but the state's economy is billions so a 1 percent growth in, in the economy, collecting taxes offsets a pretty good chunk of-- you don't have to cut. You just have to slow the spending down. The economy will get ahead of it and it won't take it long.

BOB HALLSTROM: And I would agree, Senator. I think that's part and parcel of what Mr. Slone was talking about, is that you've got economic growth and that's where we're bringing more people into the state. We've worked on work force housing from the bankers' perspective and things of those issues which we may not have seen eye to eye on. But there's a lot of different things that go into the equation of economic growth will obviously be part of that equation.

GROENE: But isn't that part of the problem with--so Senator Davis earlier--these carve outs, TIF on housing, zoo tax. We are

chipping away at both sides of the tax base and claiming that-- and raising spending. We're not only not increasing revenue, we're giving revenues away. And when you do that you set yourself back two steps. One step when it takes you two steps to get back ahead again. Somebody had to make up the property tax difference on TIF housing. Somebody has to make up the sales tax revenues on, on zoo admissions. And again, when this bill we're giving earned income tax credit. Well, somebody is going to have to pay taxes before we get a step ahead again. It-- math don't work. Thank you. I'm lecturing, but I'm sorry.

BOB HALLSTROM: I didn't think there was a question there. I appreciate that.

GROENE: You nodded, so I hope you agreed.

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Several times now-- and Mr. Slone kind of said the same thing, you know, we need to grow our economy. And I, I won't disagree with that, but when I watch a community like Lincoln here, they're growing by, you know, pretty fast but they have extreme growing pains. I mean, they've got impact fees, they've got wheel tax, they've got sales tax on everything, occupation taxes, franchise fees. I can go down a long list of revenue collected in Lincoln here and a lot of that

is brought into Lincoln here by outside residents. And they still can't keep up either, so how do we outgrow or how do we grow it to where we stop collecting taxes and start to lower it, because I look at this community here and there is no lowering of taxes here and they're growing. We are not growing out west and we're supposed to be able to cut back, but they're not growing their way out of it here. I'm, I'm starting to not buy into that scenario that somebody is going to start cutting some spending somewhere. But if you say growth does it, does that do that in Lincoln?

BOB HALLSTROM: Senator, I don't know whether it does. I know there's a lot of discussion over impact fees and different taxes that the city council and the mayor in Lincoln encounter the same issues that the Legislature and this committee do, so.

GROENE: Thank you.

BOB HALLSTROM: Thank you.

LINEHAN: Thank you, Senator Friesen. Other question from the committee? Thank you, Mr. Hallstrom.

BOB HALLSTROM: Thank you.

LINEHAN: Next opponent.

JIM ENGELBART: Good evening. My name's Jim Engelbart. I'm testifying in opposition to LB314 and LB497. I ask that you include the testimony in the hearing for both bills.

LINEHAN: Can you spell your name?

JIM ENGELBART: Jim, J-i-m, Engelbart, E-n-g-e-l-b-a-r-t. I'm the operations manager for Empyrean Brewing Company here in Lincoln, Nebraska. I'm also the president of the Nebraska Craft Brewers Guild. Thank you for the opportunity to testify in opposition to the proposed increases in excise taxes. I grew up in rural Nebraska. Upon graduation from college here at the university, like many of my peers, roughly 60 percent of my-- my hometown of Scottsbluff, I moved out of state with no plan to move back. I-- I came back to Nebraska roughly a year and a half after I moved out because I had an opportunity to-- to work in my love of craft beer in the state. I point out my history in the business. I'm one of the oldest brewery employed employees in the state. The only older guy is the guy that brews beer for us in Empyrean, Rich. We've both been doing this for a couple decades now. I think that qualifies me to speak a little bit on the excise tax portion of this bill and that's-- that's kind of what I'm-- my-- my intent here today. We need an informed tax policy. I think we've-- we've heard a lot of that today. A lot of what's in this bill isn't 100 percent informed. It's informed from one

side. There's several things that I've heard, that have spun out of this bill, out of the mouths of senators that give me, as a taxpaying citizen, pause. Someone employed in the business of making alcohol in the state also gives me pause. Those two things specifically all speak to, are the excise taxes are pass-through and the second part is that this is just-- we're talking 10 cents a drink and that's not a big deal. Excise tax increases are not pass-through. When we take an increase at the manufacturing side of our industry, those increases are compounded as they go through the chan-- the channels to wholesaler and then again to retailer, because all the markets are done on a standard basis of percent. They're not done on a dollar figure. So a 10-cent increase becomes a 13-cent increase at the wholesale level, becomes a 17-cent increase by the time the retailer is ready to sell it. That's the cost of business. Those markups are set by percent. Again, it's not a dollar pass along. Small changes in excise taxes at the manufacturing level will always equal a much larger price to the consumer at the retail level. Since the majority of beer purchased in the state in Nebraska is purchased at the grocery store, where people are more price sensitive than they are in just about any other setting, a large increase in price change is going to bear out in the form of less sales for everybody. To hear an official say that it's a 10-cent per drink and it's not that big of a deal is

really disappointing because it really speaks to a lack of understanding of the business of selling alcohol. So a 10-cent increase per drink for me as a manufacturer equals \$16 per keg, which is all of the tax-- the price increase I've been able to take as a manufacturer in ten years.

LINEHAN: OK. Thank you very much for being here. Appreciate it, Mr. Engelbart.

JIM ENGELBART: Uh-huh.

LINEHAN: Are there questions for Mr. Engelbart? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Kind of keep explaining that because I'm-- I'm interested in hearing what you're saying, I mean because what-- what you're telling me, I mean if-- if you start, here everybody keeps adding to it and it's more than the initial tax.

JIM ENGELBART: The point would be--

FRIESEN: Just a percentage [INAUDIBLE].

JIM ENGELBART: --the main point I'm trying to make is it would be the single-- in 20 years in this business-- it'd be the single biggest price increase we've ever had to take as a manufacturer.

FRIESEN: Yeah. Let's-- let's say we even lower it. You're saying it multiplies though. Let's say it starts at a much lower level and--

JIM ENGELBART: So we decide,--

FRIESEN: --[INAUDIBLE].

JIM ENGELBART: --as a manufacturer, we've taken-- let-- let-- let's take taxes out of the question altogether and say we have an increase in material and it's a large enough increase in that material that we can't just absorb it as a manufacturer.

FRIESEN: But the cost of material might be different from you between the bigger breweries.

JIM ENGELBART: It's-- it's different but it still applies at the point of manufacture.

FRIESEN: OK.

JIM ENGELBART: The increase comes at the point of manufacture, whether it's a tax or a material. We can either absorb and eat it or choose to absorb it or choose to pass it on through the chain, so to speak. And we're in a regulated field where we're required to sell a beer to a wholesaler, who then can sell it to the retailer, who then can sell it to you, the consumer. So we

take a 10-cent price increase. Our wholesaler has a 30 percent margin on everything they sell from us, so they mark it up, not 10 cents, they mark it up 30 percent over the new price point,--

FRIESEN: OK.

JIM ENGELBART: --which is 13 cents.

FRIESEN: I-- I think I follow your path now. So would you say then if we're going to put any taxes on it, it would be better to put it at the end product?

JIM ENGELBART: I would say don't put any tax on it. [LAUGHTER]
My last point, my last point I didn't get to is we already pay the highest taxes in the region.

FRIESEN: Yeah, I-- I get that.

JIM ENGELBART: We don't need another-- we don't need another category where we're the highest tax. Obviously we've heard a lot of that today.

FRIESEN: Just looking at revenue again and saying if there was going to be one put in place, the way they multiply, I-- I get your-- I get your problem. And so if one was going to be put in place--

JIM ENGELBART: Is there less impact on the manufacturer if the sales increase comes at the point of sale versus at the point of manufacture? The overall impact to everyone in the industry is lowered, yes, but is that good for the industry as a whole?

FRIESEN: No one-- no one wants to lose a tax exemption, all right, or an increase in tax. I get that. I'm just looking at I'm trying to get your explanation, and you make some sense there so I'm following that. And so that makes sense to me. I appreciate you--

JIM ENGELBART: We're opposed to any tax-- we're opposed to any tax increase, whether the tax increase--

FRIESEN: I know you are.

JIM ENGELBART: --comes on the front end or the back end. The consumer still pays the difference, is what the argument's being made here,--

FRIESEN: Yes.

JIM ENGELBART: --which isn't good for us as producers.

FRIESEN: I know. I know you are. And the same-- same goes for me and my products if you'd tax it at-- we all get that part. I'm just--

JIM ENGELBART: Thank you for the question.

FRIESEN: Yes, I wanted to clarify and you did a good job of moving through the process. So thank you.

LINEHAN: Thank you. Thank you, Senator Friesen. Senator Groene.

GROENE: It's my understanding that craft brewery are the third retail right there, so that's manufactured there and you sell it right there. So you-- you-- you skip that--

JIM ENGELBART: For some of us, yes; for some of us, no. I mean again here's-- here's an industry where we've gone from 20 individual businesses roughly ten years ago to now we have 50. And so we exist in the full spectrum. We have places that everything they make on-site they sell on-site. Businesses like ours, we sell over 80 percent of what we make off-site.

GROENE: Yeah. But it's also more of a cultural thing like wine drinking. It isn't like the guy who sits in a corner and probably drinks a six-pack and we never drink one beer or two.

JIM ENGELBART: We-- we don't set ourselves up in environments where we're built to sell a massive amount. It's not our goal to go out and sell the most of the least expensive item we make. We're-- we're out trying to enhance people's dining experience.

GROENE: Your market is not the guy who wants to get drunk and goes and buys a 12-pack after work every night.

JIM ENGELBART: Not-- not at all.

GROENE: Your market is the people who appreciate the taste of beer. So your volume isn't as high, so you got to make a little money on each one.

JIM ENGELBART: The-- the cost of us doing business, because we have to buy the equipment to make what we're going to sell, first and foremost, we have to pay for all the taxes and licensing and inspection to get our facilities up and running to do those things. So, yes, we-- we have. We make products that we sell more for and the goal is not necessarily to sell a huge volume--

GROENE: Volume.

JIM ENGELBART: --with those made inexpensively. It's to make something of quality and get a fair price for it.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Senator Crawford.

CRAWFORD: Thank you, Madam Chair. I just want to go back. You said something about that you felt we had the higher beer taxes than surrounding states. Is that your impression?

JIM ENGELBART: We have the highest beer taxes of all, every state that touches us. Yes.

CRAWFORD: OK. So--

JIM ENGELBART: This-- this-- this tax increase that's proposed in both of these bills would take us to number one in the country.

CRAWFORD: Oh, yeah, the tax increase--

JIM ENGELBART: Yes.

CRAWFORD: --would. Is-- is that what you're proposing? All right. I'm just-- we had another handout--

JIM ENGELBART: From number 20th.

CRAWFORD: --from someone else that suggested that the beer taxes in Missouri and Kansas are \$2, \$2.50; Colorado \$2.28, which would all be higher.

JIM ENGELBART: But I think those-- those amounts that you're reading are not per gallon. They're per barrel. The-- the rate in Colorado is less than-- than 10 cents to 8 cents a gallon.

CRAWFORD: OK. The comparison I-- it's just the comparison was Nebraska now being at 31 cents.

JIM ENGELBART: We're at 31 cents a gallon.

CRAWFORD: Gallon.

JIM ENGELBART: Yes, which I don't have the-- the barrel amount in front of me. The feds-- again, this is another fun thing with taxes. The feds always deal with beer taxes in barrels, which is 31 gallons. At the state level we deal with it by gallons. I'll-- I'll let Hobie explain that question to you at some other point in time.

CRAWFORD: Thank you.

LINEHAN: I need a beer. Thank you very much--

JIM ENGELBART: Thank you for your time.

LINEHAN: --for being here. Next opponent.

LES MEYER: Good afternoon. I'm here to testify on both bills at the same time, LB314 and LB497. My name is Les Meyer, L-e-s,

last name M-e-y-e-r. I'm the co-owner, along with my wife Trish, of Capitol View Winery, just south of town, Roca, Nebraska. I've also submitted in the packet a letter from the Nebraska Wine and Grape Growers Association with their comments about both of these bills. Several of them would have been here but they-- they have Valentine's events tonight, as I'm sure all of you do. First of all, I want to tell each one of you how much I appreciate your efforts and willingness to take on a huge task of tax relief. We all know how out of control taxes have become. Just like every one of you, we get hit with high property taxes. Just like every one of you, we pay taxes on our real estate. We pay taxes on our personal property and equipment that we need to operate our vineyards and our wineries. Just like all of you, we pay state and federal income taxes. But we also get hit with multiple other taxes. We pay a check-off tax. Then when the grapes come in the back door, we pay a crush tax. And we pay a state excise tax. Then we pay a federal excise tax. We then charge a sales tax when a customer buys wine and that sales tax is the only tax that we pass on to our customers. I know the belief is that we can just pass it along, but for some, they know they won't be able to do that. Wine is something that's commonly bought in a case and our customers can and will buy their wine from wineries they visit in neighboring states. We've been fortunate. We've had people travel here from every state in

the country that love to visit one winery after another. And I believe I could get by passing along the proposed excise tax on a glass of wine. My hope is that as they travel they'll buy several bottles to take home with them and share with their friends. When we're no longer competitive with wineries in neighboring states, it will affect our sales. We'll have visitors from other states buy less wine as they travel through. We also have small wineries that know they just can't pass along. They really believe that this would be their final straw. I know I'm about out of time. I just wanted to tell you one more time I appreciate the task you have. I-- I-- I can't imagine the burden. I used to always say don't bring a problem to somebody unless you have some kind of a solution, and I sure don't. But-- but I do appreciate all you do.

LINEHAN: Thank you very much. Are there questions? Seeing none, thank you very-- oh, wait a minute. I'm sorry. Senator McCollister.

LES MEYER: Yes, Senator.

McCOLLISTER: Have you ever thought about running for the Legislature?

LES MEYER: I-- I think I'll let you do that.

McCOLLISTER: OK.

LINEHAN: Thank you very much, Mr. Meyer. Next opponent.

STEVE GENTRY: Good afternoon.

LINEHAN: Good afternoon.

STEVE GENTRY: My name's Steve Gentry, spell it S-t-e-v-e G-e-n-t-r-y. I'm senior director of regulatory tax for R.J. Reynolds Tobacco Company. I'm glad to be here. I want to thank you for the opportunity to voice opposition to LB315 and LB497, which proposes to increase the Nebraska state excise tax on cigarettes to \$2.14 a pack, which is an increase of more than 230 percent. Currently nearly 28 percent of the price of a pack of cigarettes goes to Nebraska coffers in the form of taxes and fees. This proposed \$1.50 increase would increase this figure to 45 percent, further reducing discretionary income of hardworking Nebraskans. Projected revenues from increases in tobacco tax are jeopardized and sometimes missed partly due to unexpected cross-border activity with neighboring states with lower excise tax rates on the same cigarette products. Omaha and Bellevue and Lincoln all were located within an approximate one hour's drive from the state of Missouri which taxes the same cigarettes at 17 cents a pack. When assessing the impact of this increase, please consider the following. Cigarette taxes are highly regressive,

hitting low-income Nebraskans the hardest. Individuals making less than \$25,000 dollars already spend 14 percent of their discretionary income on the Nebraska state excise tax. The proposed \$1.50 increase would cause this subset of the population to fund 37 percent of the additional cigarette tax revenue projected by these bills. Nebraskans making less than \$35,000 annually would fund 52 percent of the additional cigarette tax revenue projected by these bills. Third party research shows that when cigarette taxes go up, participation in the SNAP program also goes up. An analysis of this data suggests that the proposed tax may lead 32,000 more Nebraskans to enroll in SNAP, costing the state nearly \$5 million additional to administer this program. Overall, Nebraskans stand little to gain with this 234 percent increase in cigarette excise tax and the passing of these bills may result in numerous, unintended, negative consequences. We respectfully ask that the committee oppose the \$1.50 cigarette tax in both of these bills. Thank you so much.

LINEHAN: Thank you for your testimony. Are there questions? Seeing none, thank you very much.

STEVE GENTRY: Thank you.

LINEHAN: So now we'll go to one neutral. Do we don't-- yes, we do. No, we don't. Is there anybody wanting to testify in a neutral position? OK. Proponent.

DON SCHULLER: Hello. My name is Don Schuller, D-o-n S-c-h-u-l-l-e-r. Good afternoon, Senator Linehan and committee members. I represent Gage County Taxpayers Organization. I live and farm in southern Gage County. I am near the state line of Kansas. I have friends who own land in both Nebraska and Kansas. The taxes on a Kansas river bottom pivot-irrigated farm is \$32 per acre. A few years ago, before a tax school bond issue, it was \$17, and plus increase in their property taxes other than the school bond issue. My comparable Nebraska river bottom, nonirrigated farm is \$63 per acre, and if it was irrigated it'd be over \$100 per acre. Two comparable nonirrigated acres-- parcels, one in Kansas and one in Nebraska, with no improvements. Nebraska taxes are \$50 an acre and \$20 an acre in Kansas. For a Lancaster County farm, the Norris school district, taxes on \$140 an acre with no improvements, was \$16 an acre in 2007; 2018 they are \$65 dollars an acre. In 2011 corn prices averaged \$7.22 per bushel. Taxes on 480 acres in Gage County was \$10,500. Two thousand eighteen, corn averaged \$3.25 per bushel and the taxes on this 480 acres was \$17,500. Any other business person but a farmer would get up, give up, and do something else because it makes no financial

sense to continue. It would be hard for any other business people to understand why farmers keep doing, excuse me, doing what they are doing. If they didn't, the state would be suffering more than it is now. Property taxes are relied upon too heavily. All property taxes are too high. The biggest pressure is on ag land due to its rapid increase in evaluation. High taxes are undermining the number one industry in this state. We cannot continue to choke the life out of agriculture. It is the foundation of this state and ag producers cannot add their expenses to the price of their product. In 2008, when the economy was crashing every place, it was good here, reason being the farmers were making money. The farmer keeps his money in circulation. Most do not invest in the stock market. Their investment is in their land and the machinery it takes to operate it. They pay property taxes on all of it. They pay taxes on their retirement investment, unlike those with a 401(k). The state punishes those who put the most back into the economy. I prefer not to shift taxes at all to lower property taxes. Sales taxes also are already high in this state. Without adding other sources of revenue, Nebraska has nothing else it can do to balance out the tax burden. Therefore, I reluctantly support LB314.

LINEHAN: Thank you, Mr. Schuller. Thank you. Are there questions from the committee? Mister-- or, Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Mr. Schuller, so you're saying you've had a pretty substantial tax increase.

DON SCHULLER: Yes.

FRIESEN: Who did you pass that on to?

DON SCHULLER: Nobody. I rent and far-- I mean I own my own land. I farm it myself. I cash rent the farm that I rent. And so there-- not cash rent, excuse me. I rent it on shares. So the landowner there gets-- takes it, the high property taxes, out of his share of the crop.

FRIESEN: So what-- what would you estimate percentagewise your taxes have gone up?

DON SCHULLER: It's-- my taxes have gone up 250 percent in the last ten years.

FRIESEN: And you couldn't pass them on to anybody?

DON SCHULLER: No.

FRIESEN: Thank you, Mr. Schuller.

LINEHAN: Thank you, Senator Friesen. Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. You were comparing the tax basis of Kansas farm ground with your farm ground. How do they value farm ground differently than Nebraska?

DON SCHULLER: I don't know that they value it any differently.

McCOLLISTER: Well,--

DON SCHULLER: But their schools are completely paid for. They are not on-- now I-- I'll back up. School bond issues are covered by property taxes, but I do not believe property taxes covers the teachers and other aspects of school.

McCOLLISTER: Well, of course, as you well know, in Nebraska it's based on the value of the farm ground rather than a kind of productive-- productive aspect.

DON SCHULLER: Yes. In Kansas I'm certain it is the same as Nebraska. It is not based on the value. Now Missouri, as I understand it, it is on the production, as we-- as it has been proposed here. But, my friends, I don't own land in Kansas. There is a Kansas landowner had to leave for a doctor's appointment that hopes to come back and testify, and he could tell you.

McCOLLISTER: Have you seen the value of your ground decrease the last couple two or three years?

DON SCHULLER: It has not decreased. It has not increased as rapidly as it was.

McCOLLISTER: Thank you, Mr. Schuller, for coming.

DON SCHULLER: Yes.

LINEHAN: Thank you, Senator McCollister. Are there other questions for Mr. Schuller? Seeing none, thank you very much for being here.

DON SCHULLER: Yes. And I do have-- Mr. Bill Armbrust had to leave because his cattle have calves, so I have his testimony here.

LINEHAN: OK.

DON SCHULLER: Thank you.

LINEHAN: Thank you. Hello.

LANETTE RICHARDS: Good afternoon. My name is Lanette Richards, L-a-n-e-t-t-e R-i-c-h-a-r-d-s, and I am the executive director of Monument Prevention, a coalition located in Scottsbluff working to prevent underage drinking, excessive alcohol consumption, and the related harms. I'm here before you today to express our support for both LB314 and LB497, in particular, the increases to alcohol taxes in these bills that will help save

lives and prevent other alcohol-related harms in our community. I came all the way from western Nebraska because our coalition knows that increasing alcohol taxes is an evidence-based strategy recommended by experts, such as the American Medical Association, the National Academic-- Academies of the Sciences, the American Public Health Association, the World Health Association, as well as others. Hundreds of studies have found that increasing price leads to decreases in excessive drinking and the harms that come with it. According to the CDC, excessive drinking is the third leading cause of preventable deaths in the U.S. It contributes to short- and long-term health risks in Nebraska, including motor vehicle crashes, which in 2017 was 1,661, with half of those being injury or fatality crashes, homicide, suicides, sexual assaults, alcohol poisoning, unintended pregnancies, heart disease, cancer, and others. In 2015 alone our state had an estimated 703 alcohol-attributable deaths. One of the big reasons for this is low alcohol taxes. Research has shown that increasing the price of alcohol decreases excessive drinking, especially among youth, and the harms that come with it. Nebraska is currently ranked the fifth worst state for excessive drinking by both the United Health Foundation and the CDC, with more than 20 percent of our population engaging in this behavior. While only-- while-- and while one-fifth of our Nebraskans are causing the-- these

problems, our communities suffer for it. We have seen positive impacts in states that have recently increased their alcohol taxes, and those are in some of the handouts that we-- I have given you. The evidence shows that Nebraska can reduce alcohol-related harms across the state, while simultaneously increasing revenues to solve its property tax problems. Monument Prevention believes that raising alcohol taxes is the most responsible way to property tax relief. We would urge the committee to advance LB314 and LB497 with increases to alcohol taxes. Thank you for considering our comments.

LINEHAN: Thank you very much for being here. Are there other-- are there any questions from the committee? Seeing none, thank you for being here.

LANETTE RICHARDS: Thank you.

LINEHAN: Next proponent.

KEVIN RAUN: Good afternoon. Welcome, Madam Chairperson and the committee. Thank you for the opportunity to be here before you today. My name is Kevin Raun, K-e-v-i-n R-a-u-n. I am from Minden, Nebraska. I am a farmer. I'm a member of our local school board. I'm active in my community and I'm engaged civically. I am here today to support LB314. I was really excited and encouraged a couple years ago when the United

Coalition was formed to battle this-- come up with a battle plan on this issue. The groups involved with this effort represented wide-ranging stakeholders, particularly in agricultural and education fields. It seemed to me then, and it still does, that this represents the best opportunity to tackle this issue. This bill is the work of a large group of Nebraskans from a wide range of interests. They've worked this bill over and over to satisfy its supporters. This bill is here before you today. It's a result of give-and-take and looking to the common good. It's inspiring to me to see the process that was involved in the formation of this legislation. We can argue back and forth about the merits of any particular bill before you this year. In some ways they-- they muddy the situation and take our eye off the prize, the prize being to get something done about the school funding formula and the property tax situation which we're facing. This bill responsibly provides funding methods to pay for property tax relief. Without the replacement funding piece, efforts to change the funding method for K-12 education in Nebraska will simply fail. This bill does the best job of sharing that funding effort over a wide demographic. There are those who will say they don't want a tax increase. Indeed, they say they don't want a tax shift. Let me remind you of the tax shift that's currently happening where-- where I live, where the state income taxes paid by residents of our school district that

go toward school funding nearly entirely leave our district. To conclude my remarks, I will tell you what you already know.

We've talked and talked and talked about this issue. It's been a top priority. Let's get it done this year. Thank you. Is that the-- oh, I thought that was the red light.

LINEHAN: No, it's the yellow light.

KEVIN RAUN: Oh, my goodness, I talked fast.

LINEHAN: Well, we might have a question for you, so.

KEVIN RAUN: Anyway, this will be a good year to get something done and I have hope that will happen. I would ask you to support this bill.

LINEHAN: Thank you very much. Are there questions from the committee? Senator Groene.

GROENE: Why do you trust us? We haven't lowered the levy limit. This bill doesn't lower the limit. It throws money at education. It raises taxes on you and your neighbors. There's nothing in this thing that says-- guarantees that you're going to get a levy lowered or that in the future, as you val-- if farm price-- land continues to go down that the levy won't be forced up to make up the difference then. I don't see it.

KEVIN RAUN: I can tell-- I can only tell you this, and that is that we have done our very best job to keep our budget in line locally. We have facilities we support locally and our patrons in our district are not coming to us and asking us to cut programs. Sometimes I wonder why because I can see a few things that we could work on. They're not coming our direction. That's the solution we-- we had a bond issue that went through three or four years ago. It was contentious between the rural taxpayers and the city people and I hated it. And I told people we can't solve this problem locally. This goes down to Lincoln. So we do trust you in Lincoln to do something about this to the best of your ability. You have to trust us that we're not going to go crazy spending money too. So--

GROENE: No, I know the history of your school board. You've done a really good job of controlling your levy.

KEVIN RAUN: Thank you.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? What district? I'm sorry, did you-- ?

KEVIN RAUN: Minden public school district.

LINEHAN: Minden?

KEVIN RAUN: Yes. We're an unequalized district. We have a large property tax base, so.

LINEHAN: How many students?

KEVIN RAUN: A little over 800.

LINEHAN: Thank you very much for being here.

KEVIN RAUN: Thank you.

LINEHAN: Appreciate it. Next proponent.

ANN HUNTER-PIRTLE: Good afternoon, Chair Linehan, members of the committee. I'm Ann Hunter-Pirtle, A-n-n H-u-n-t-e-r-hyphen-P-i-r-t-l-e. I'm the executive director of Stand for Schools, a nonprofit dedicated to advancing public education in Nebraska. We're also members of Nebraskans United. We're here to support LB314. We thank Senator Briese for introducing it because it addresses the urgent need to reduce property taxes while introducing a number of revenue raising measures that will invest in our children's futures and keep our schools strong for years to come. LB314 is aligned with principles of good tax policy and broadens our state's tax base to include services. It also includes increased support for special education, which benefits all school districts, large and small, equalized and nonequalized. Nebraska has consistently ranked 48th or 49th in

the nation for state-level investment in K-12 education, and yet Nebraskans know a strong K-12 school system strengthens our state's economy and Nebraskans have made school funding a local priority. Stand for Schools strongly believes it's time for Nebraska to rebalance the scales and reduce overreliance on property taxes with the state taking on a greater share of K-12 funding. For these reasons, Stand for Schools supports the bill and urges you to advance it to General File. Thank you and happy to take questions.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you very much.

ANN HUNTER-PIRTLE: Thank you.

LINEHAN: One more proponent.

DAN BENES: Good afternoon, Madam Chairman, Senators. My name is Dan Benes. I'm from Valparaiso, Nebraska. I come here today to support LB497 and LB314, and I'm gonna keep it brief. There's a handout being passed around. I purchased a farm in 2012. It was close to my home. Expanded my operation, seventy-two acres total, 68 acres farmland today. When I purchased the farm, it was about half farmland, half grassland, and the land is hill ground, highly erodible. I had to have an approved conservation plan by the NRCS to farm the land. And also I might add there is

a natural resource. There is an abundant supply of rocks. And for you people that don't realize what rocks can do to farm machinery, it is very expensive. The land is not flat ground. As I said, it's hill ground. It requires special farming. The first week in January I received my preliminary valuation notice in the mail from the Lancaster County Assessor. The mentioned farm 2019 valuation notice increased 88.5 percent from the previous year. And of course, I made an appointment. I went into the assessor's office on the 24 of January. After listening to many reasons why the increase was needed, the meeting was over. It was a one-sided conversation and my frustration with land taxes was at an all-time high. You know, we talked about valuation and we talk about a lid, but when there's a valuation of that increase, folks, it is ridiculous. Now it's dryland. I have a lot of expenses. I talked about seed, fertilizer, weed chemicals, equipment payments, and, yes, land taxes. It's a real challenge to make a profit when things like that happen. I thank you for listening to my frustration. In the spirit of Nebraskans working together, I hope we can find a solution to this very serious problem that continues to worsen for agriculture. Are there any questions?

LINEHAN: Thank you, Mr. Benes. Do we have questions from the committee? Seeing none, thank you very much.

DAN BENES: Thank you.

LINEHAN: Then we go to opponents, right? Yes. Opponents.

ERIC JOHNSON: Good afternoon. Eric Johnson, E-r-i-c J-o-h-n-s-o-n. I'm a vape shop owner in Omaha, Nebraska. As an owner, we get a lot of different people into my shop. Most of them could best be described as economically challenged. Many of them wait until payday to make their purchases and others, you look outside and you can watch them as they're scraping through their car to try and find some loose change. As such, any change in the cost of goods would be significantly impactful to this group. And when I get people to quit I tell them to take the money that they normally would have spent on cigarettes and to use it to buy-- and they use it to buy-- use it to buy vaping products. Now whatever is left over I tell to put it in a jar and after a period of time see how much they have. My brother-in-law, who is an example of many other people who have done this, oh, did this for an entire year. At the end of the year he was able to take my sister and my two nieces on a trip to Okoboji. And that's a trip that they certainly wouldn't have been able to do if they hadn't started vaping. We also get a number of people who are just simply economically challenged in general and are fighting every week in order to be able to put food on their table for their kids. Not very long ago a young woman drove up to my shop

in an older model vehicle. She had a window broken out and it was covered in Saran Wrap. The rear right tire was also missing and was replaced with a spare tire. She walked in with two kids in tow to get her vaping supplies and we worked the best that we could in order to be able to help her maximize her dollar, as it was readily apparent that every penny counted to her. Now 40 percent of all GED recipients smoke and over 30 percent of all people below the poverty line smoke. This additional tax will be felt strongly by my customers, many of whom are like my brother-in-law and the woman and her kids. They are struggling to make ends meet and this additional taxation will severely impact them and their ability to live their lives the best they can. Now, as Senator Briese stated earlier, this is not a statement on-- that this is not a statement on morality, but vape-- vaping is being targeted as a sin tax even though most of these people are trying to stop smoking and they have been successful in stopping smoking. These people are desperate to quit. As he also stated, this is supposed to be a progressive as opposed to a regressive tax, and because of that it's going to affect my customers, especially, in a negative way. I strongly encourage you to help them by not passing this bill as it currently stands. Thank you.

LINEHAN: Thank you very much, Mr. Johnson. Are there questions from the committee? Seeing none, thank you for being here. Next opponent. Go ahead.

RICHARD HAGEDORN: Good afternoon, Madam Chair. My name is Richard Hagedorn, R-i-c-h-a-r-d H-a-g-e-d-o-r-n, from Gretna. I am with Soldier Valley Spirits. We're a craft spirits maker here in-- in La Vista, and we've been in business for almost five years. I, Rich Hagedorn, am a veteran, and as a veteran, as 24 years put in the Army, what do you do after the military service? Well, my buddy Jeff Hadden said I got a great idea, and I went with it and we put everything we-- we-- we have into this business that we knew would be successful, the reason why is giving back to veterans. And that's what we're all about. So the different veterans' groups that we've given back to, to even do right now we're working on, it's called a carillon. It's a bell tower at the National Cemetery in Sarpy County, working with a man by the name of Kevin Neumann, working to give, to make money, to create money, because every bottle that we sell we give a portion of our bottle sales. If you look at our bottle, if anybody knows anything about Soldier Valley Spirits, and a few-- I've-- a few-- I've seen a few people have been in our place before, it's a World War II canteen bottle. It's all about, you know, giving back to our veterans. So a portion of

that money goes back to veterans. And when I look at this, this LB314 and 417-- LB497, you know, I've-- I've lost some sleep on this, because when you put, as a business owner, as a part-- as part of a business owner here with us and you put everything into your business and you look at this and go, oh, my gosh, here is a tax increase of 200-and-some percent on our liquor. And-- and looking at, you know, different numbers of-- of close to \$2 a bottle and then maybe in excess of that, it scares the heck out of you. We put everything into this, life savings, all that good stuff, to be successful. You know, we could lose everything on this and it's a bad deal. The reduced tax rate, I want to bring that up too. So a gentleman said earlier about a reduced tax rate. We reinvested in the state in Nebraska so our canteen bottles will be made in Kearney, Nebraska. Now that's kind of new stuff that a lot of people don't know about, but how neat is that, on the bottom of our canteen bottle, made in Kearney, Nebraska, U.S.A.? And these go to military bases, the Army Air Force Exchange Service, NEXCOM. We sell to a lot of different places, to military places. How cool is that to have Nebraska on that bottle? So, you know, corn, rye, wheat, barley, you know, we reinvest in the state in Nebraska. That's what we're all about. But one thing, too, is if we get taxed a whole bunch when it comes down to those veterans it's going to be

tough for us to give back to our veterans, and that's what we're all about.

LINEHAN: Thank you very much for being here, Mr. Hagedorn. Do we have any questions from the committee? Thank you.

RICHARD HAGEDORN: Thank you.

LINEHAN: Thank you.

GORDON HULL: Senator Linehan, I spent 23-- two years ago I spent hours trying to convince the Legislature to pass craft brewers. And we finally did accomplish that. Now I'm amazed that we have 50 craft brewers in Nebraska.

LINEHAN: Did you say your name?

GORDON HULL: At each--

LINEHAN: We need you to state your name and spell your name.

GORDON HULL: Oh, excuse me.

LINEHAN: That's OK.

GORDON HULL: Gordon Hull, H-u-l-l.

LINEHAN: Gordon Hall, H-a--

GORDON HULL: Hull.

LINEHAN: OK.

GORDON HULL: So I'm amazed at how large the craft brewing business has gotten, but it's not going to get any better if we pass this legislation, because the tax that we have to generate has to be collected from our customers. And so how do you do that when-- when the tax is going to have to be so high? So why can't the Legislature address the tax end of this program and lower the tax to make it profitable for us? You know, we have-- we have \$700,000 invested in brewing equipment and this is not going to work. Now Albion is trying a brew house. So, Senator, it's-- this is investment in Nebraska, just-- just like the last speaker. That's all I have to say.

LINEHAN: Thank you very much for being here. We appreciate it, Mr. Hull. Are there questions for-- yes, Senator Groene.

GROENE: Are you part of a brewery then, a craft brewery? Do you have a craft brewery--

GORDON HULL: Yes.

GROENE: --or part of one, a family?

GORDON HULL: Well, I own it. Let's put it that way. And because of Lazlo's and I think there were four or five people that [INAUDIBLE], Upstream from Omaha, there were very few people who

wanted to be in the craft brewing business. But now all this investment has been made in Nebraska and now you're going to kill the golden goose.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Are there other questions from the committee? Seeing none, thank you for being here, sir.

GORDON HULL: Thank you.

LINEHAN: The next opponent. Thank you.

JEREMY EDDIE: Good afternoon, Chairperson Linehan and members of the Revenue Committee. My name is Jeremy Eddie, spelled J-e-r-e-m-y, last name E-d-d-i-e. I'm the CFO at Omaha's Henry Doorly Zoo and Aquarium. I'm here today representing the Omaha Zoo, the Lee G. Simmons Conservation Park, and the Lincoln Children's Zoo in opposition to provisions contained in LB314 and LB497 that repeal the sales and use tax exemption for nationally accredited zoos and aquariums. Since LB419 took effect on January 1, 2016, our zoo has made good on the promise to grow the economic impact of the state, increase visitor and member numbers, expand education programs across the state, and enhance the sustainability of some of the world's most endangered animals at our facilities. Omaha's Henry Doorly Zoo and Aquarium is a major

driver of tourism in Nebraska. Total zoo attendance has grown 31 percent in the last ten years, eclipsing 2 million visitors per year in 2016 and 2017. On average, 35 percent of those visitors come from outside of the state. From within our state border we saw visitors from all 93 counties. In the last three years, since implementation of the exemption, Omaha Zoo's average annual economic impact to the state of Nebraska has been \$190 million, which is 33 percent higher than the average of three years prior to the exemption. The peak impact of \$217 million in 2016 is more than 2.5 times the economic impact of ten years ago. Taxable sales in the last three years have grown 26 percent on average over the three-year average prior to the exemption. This growth clearly demonstrates that the investment in the zoo can produce an economic benefit to the state. While the economic impact numbers are impressive and likely the most germane to the task lying in front of this committee, I also want to mention the contribution the Omaha Zoo makes in education in our state. The zoo's education programs touched 60,000 students in 75 counties and 35 states. Outreach and virtual distance learning programs allows students to meet experts, ask questions, while learning about STEM subjects and learn about careers in conservation. Speaking of careers and jobs, more than 1,400 people worked at the zoo in 2018, and career development opportunities were provided to 675 interns. We are grateful for

the partnership with the state that was created by the sales and use tax exemption. Our donors, who have given more than \$200 million to build new exhibits at the zoo in the last eight years alone, consider this relationship very important. Donations pay for large capital improvements, but the zoo, with assistance from the city and the state, must pay for the operation of those new exhibits. LB314 and LB497 would reduce our ability to grow the state's tourism industry and maintain our status as one of the top zoos in the world. It would send a signal to our generous benefactors and our board that the state is no longer willing to partner with us to bring new visitors and dollars to the state. We know there's a difficult debate ahead related to property tax reform in the overall state budget, but we believe investment in the zoo, an economic engine, is part of the best way forward. The state's investment through the sales and use tax exemption has thus far resulted in a 100 to 1 return on economic benefit.

LINEHAN: Thank you. Thank you for being here. Yes, Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So states like Florida, South Dakota, the reason they probably don't have an income tax is because they charge tourists. They make their living off of tourists and outside dollars. And so isn't it foolish of us not

to, as a state, to collect the 5.5 percent sales tax on admission to a zoo when you're a world-class zoo? You're bringing in out-of-state visitors. That's new money that's-- doesn't impact our residents as much.

JEREMY EDDIE: Yes. Well, you know, our food and gift sales are taxable. So we're-- we look at the exemption on the admissions and memberships as creating that. There has to be a reason for people to go to Florida and South Dakota, the tourism. There has to be an attraction and so--

FRIESEN: Do you think-- do you think tourists would not come to the zoo if you raise the prices 5.5 percent?

JEREMY EDDIE: No, but we think growth is part of the answer to this question. You know, cutting spending gets difficult at some point. But if we can grow the overall pot then-- then we have more revenue. So we've increased the economic impact over the years by bringing more people. When we build expanded parks, stays in Nebraska get longer. We're able to get hotel tax, more restaurant visits.

FRIESEN: You heard the testimony just a little bit ago. There was a gentleman that he's had his taxes go up to 250 percent and he's had his revenue go down. So somewhere don't we have to balance this out?

JEREMY EDDIE: We think so, but we think the growth, the growth that provide-- provided can change the top side of the equation.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Do you pay property taxes on the zoo property?

JEREMY EDDIE: No. The land that the zoo sits on is city land.

GROENE: Is city land, so all the structures, there's no property tax [INAUDIBLE].

JEREMY EDDIE: Correct.

GROENE: So that didn't-- that's not a concern of yours.

JEREMY EDDIE: No, sir.

GROENE: And then the sales tax you wouldn't pay either. That's the consumer. So couldn't you help out a little bit by at least asking your consumers to pay a little bit?

JEREMY EDDIE: We think we do. We have food and-- food and gift are both taxable. We're actually this year opening a new food service facility. It's greatly expanded. So we're-- we're investing earnings from a prior year in business that is taxable.

GROENE: But basic-- you're basically a business and those craft brewers are a business, too, and they collect sales tax on food and drinks too. So you're asking us to tax them higher so you can have a tax cut.

JEREMY EDDIE: No, I am not asking you--

GROENE: You don't pay any tax,--

JEREMY EDDIE: --to tax them higher.

GROENE: --property taxes or sales tax collections.

JEREMY EDDIE: You know, we're happy to continue to pay sales tax on our food and gifts. We're growing those operations and those revenues, which is increasing the sales tax revenue.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Senator Kolterman.

KOLTERMAN: Thank you. Thank you, Senator Linehan.

LINEHAN: Uh-huh.

KOLTERMAN: When you-- when you have students come, is there a charge for that typically, or do you cut the rate when a student comes?

JEREMY EDDIE: Yes, there's a greatly reduced school visit rate.

KOLTERMAN: So-- so they bring the kids in and then you educate the kids about--

JEREMY EDDIE: Correct.

KOLTERMAN: --what you do at the zoo.

JEREMY EDDIE: Yeah. We had over 78,000 students visit on school fieldtrips.

KOLTERMAN: Was that predominantly from Nebraska? Are you getting some from Iowa?

JEREMY EDDIE: Yes, we do get out-of-state school groups as well. St. Joe, there's a large contingent that comes every year from St. Joseph, Missouri. We have other educational programs. Our campout programs draws from a larger regional audience as well.

KOLTERMAN: How much-- how much sales tax did we save you over the last-- per year approximately?

JEREMY EDDIE: In the last three years it's ranged between 1.1 and 1.5 on admissions and memberships. The-- we estimate the use tax essentially, the-- the sales tax that we don't pay on purchases. That's harder to calculate because we don't

necessarily track that. We estimate that to be approximately \$300,000 per year.

KOLTERMAN: So-- so as-- as we give you, in a public-private partnership with the state, is we give you \$300,000. Did you say you raised \$200 million in the last-- how many years?

JEREMY EDDIE: Yes. In the last eight years we've had \$200 million in new private investment in the facilities.

KOLTERMAN: And that's-- is that philanthropy?

JEREMY EDDIE: Correct. Yes, all private donation.

KOLTERMAN: It's all free money.

JEREMY EDDIE: Uh-huh.

KOLTERMAN: Thank you.

JEREMY EDDIE: And so they're contributing to capital improvements but not necessarily operations.

KOLTERMAN: So they're-- what-- do you think that that would continue to happen if we changed our attitude towards you?

JEREMY EDDIE: We think most of our primary donors are very interested in that partnership continuing because, you know, they can focus their giving on the facilities and then leave the

operation to both the entrepreneur-- entrepreneurial efforts of zoo management as well as city and state funding as well.

KOLTERMAN: And-- can I finish?

LINEHAN: Yeah, OK. Go ahead.

KOLTERMAN: The other-- other question I have is, did you just have a big announcement in the paper yesterday or today about adding some new exhibits?

JEREMY EDDIE: Yes. The second portion of our Asian Highlands opens this April. Like I mentioned, we are building a Glacier Bay Landing, which is a large guest services area primarily focused on concessions in the-- kind of the northwest portion of the zoo. We have other projects. We have an Aquarium project in development, as well as other-- the final projects related to our master plan.

KOLTERMAN: So are those-- are those primarily-- primarily as a result of the philanthropy?

JEREMY EDDIE: Yes.

KOLTERMAN: All right. Thank you.

JEREMY EDDIE: Thank you.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: Philanthropy, biggest tax deductions for that on the federal and probably the state level, don't they, because you're a nonprofit?

JEREMY EDDIE: Yes.

GROENE: So they're not really worried too much about \$2.5 or \$3 million taxes that they're not going to pay. You're not going to pay. The consumer's going to pay who comes to your zoo. Is that correct?

JEREMY EDDIE: Well, we have out-of-state consumers as well--

GROENE: That's-- that's the money we're after.

JEREMY EDDIE: --that-- that spend and they're paying taxes at-- for their hotel rooms and their restaurant visits and food and gifts on their-- on their zoo visit.

GROENE: That's nice, but another two and a half, three million would be nice, too, for property tax relief, which you don't pay, your "philanthropers" don't pay, the consumer pays. So I don't understand the relationship between the donations and the consumer paying a sales tax.

JEREMY EDDIE: Well, the donations allow us to continue to expand and improve the facility, which brings more visitors to the state and brings more visitors to Nebraska.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? This probably isn't a fair question and I will figure it out, but-- so if-- if I buy tickets for the Holland Center or buy tickets, season tickets for the Orpheum, do I have to pay sales taxes?

JEREMY EDDIE: Yes, you do.

LINEHAN: OK. Thank you very much.

JEREMY EDDIE: Thank you, all.

LINEHAN: Other questions? Opponent, right?

SCOTT STRAIN: Yeah. Good afternoon. My name is Scott Strain, S-c-o-t-t S-t-r-a-i-n, and I'm a co-owner at Kros Strain Brewing Company in La Vista, Nebraska. I manage the business side of our brewery's operations and I'm testifying in opposition to LB314 and LB497. I ask the testimony be included in the record for each hearing. Kros Strain's been open for a little more than a year and a half. It took us about two years to plan the business and raise the \$1.5 million in start-up funding. Within the first

four months we reached our maximum brewing capacity due to strong demand for our beer. We-- in just over a year and a half, our beer has won two local awards and seven national awards, including a silver medal at the largest category in the largest national beer competition, the Great American Beer Festival. In order to keep up with demand, we invested an additional \$200,000 within our first year and we're, less than two years in operation now, we're getting ready to op-- invest another \$200,000. To date, all or 99 percent of our sales have all been in Nebraska. So it goes to show there's strong demand for craft beer in Nebraska and there's a strong market. I'm here today to tell you the proposed excise increase is it's so massive it's not something we could even remotely afford to absorb. It would have to be passed on to the consumer. However, that's not really an option either, because the end result to the consumer would raise the prices so much it would actually price us up out of the market. Any tax increase can severely limit our ability to grow sales in Nebraska. Now I-- I know one of my colleagues talked about the 10 cents per pint. I just want to go over that again. If you do the actual math on a half barrel keg, that it comes out to 13 cents per pint at the brewery level. But again, you're going to add margins as you go through the three-tier system and that'll be actually coming out to about 70 cents a pint with our math and more closer to a dollar on a six-pack,

which is even more worrisome because consumers are very price sensitive at the retail level. So because of the large investments we've made in Nebraska, our company is not in a position to withstand a loss in any volume or sale. We must grow in order for our investments to pay off. And any tax increase that slows our sales would leave us with no other option than to aggressively pursue out-of-state markets. If Nebraska wants to increase tax revenue from craft breweries it should look at ways of increasing the growth in the craft brew community. Over 70 percent of the country has adjusted its state laws to encourage growth of craft beer and the higher volume of craft beer production, the higher tax revenue to the state. Encouraging growth in our industry is the best way to increase revenue from our industry. And just a couple of years ago you all agreed with this sentiment. Thank you. I'll take any questions.

LINEHAN: Thank you very much. Do we have any questions? Senator Kolterman.

KOLTERMAN: How long ago did you start your business again?

SCOTT STRAIN: We're just under-- we're just under two years, about a year and a half, year and eight months.

KOLTERMAN: Do you own the building that you operate out of?

SCOTT STRAIN: No, that's-- it's a lease. Yeah, we're in a large building.

KOLTERMAN: So you-- you don't pay property taxes there then.

SCOTT STRAIN: We do. We still pay property tax on all of the equipment that we-- that we purchased to brew the beer.

KOLTERMAN: If-- if you had your choice between the sales tax that's been proposed or an excise tax, is there one that you'd prefer, one over the other?

SCOTT STRAIN: Well, I mean, obviously, I can't really see any instance where an increase in taxes helps my business grow or the craft beer industry. I think if you're looking for additional revenue from craft brewers, I think encouraging laws that grow the craft beer industry is the best way to increase tax revenue.

KOLTERMAN: OK. Thank you.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: Could you finish that sentence? The sentiment, you agree with the sentiment, then you quit.

SCOTT STRAIN: So two years ago LB1105 was passed and the number of craft breweries since then has grown by nearly 50 percent.

Craft beer production volume is up significantly. This is a good example of ways to grow the industry and increase tax revenues.

GROENE: What town are you in?

SCOTT STRAIN: La Vista.

GROENE: Right. Well, my local Miller distributor, who I know well, told me sales are down in rural Nebraska. I'll tell you what. When farmers aren't buying beer, the economy's really bad.

[LAUGHTER]

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So I, you know, I-- when we-- I think when everybody was looking at this, there was no intent to put the craft brewers out of business. I think most of us really like craft brew.

SCOTT STRAIN: Sure.

FRIESEN: So is there-- when you look at the different solutions and we've talked about different alternatives, is there a way where we can-- I mean does the craft brewing industry receive any kind of incentives now at all?

SCOTT STRAIN: I certainly don't.

FRIESEN: OK. I'm-- I'm just checking.

SCOTT STRAIN: I'm not aware, yeah.

FRIESEN: You haven't received any that you know of that you, I mean, [INAUDIBLE].

SCOTT STRAIN: No. No.

FRIESEN: So I mean is there-- is there a-- is there something in them, on the backside, for our local craft brews that we can help out that would help out that industry and yet still gain some revenue from an alcohol tax of some sort? You know, we like to encourage homegrown industry,--

SCOTT STRAIN: Sure.

FRIESEN: --and you are one and-- and you've done-- you bring jobs back. And so is there-- is there a way that we can structure something where you get a tax incentive for something for what you're doing and yet those manufacturers that manufacture out of state don't get that benefit?

SCOTT STRAIN: I mean I'm not sure you can really structure it in state versus out of state, you know, if-- if--

FRIESEN: I think, I think we can by manufacturer. You know, you're manufacturing in this state. We can treat that differently than someone who manufactures out of state.

SCOTT STRAIN: Yeah, I'm not sure what the legalities on that are. I mean as far as encouraging additional growth in the industry, you know, Nebraska is pretty behind, behind the curve in adjusting some of its tax-- well, just alcohol laws in general. Some 35 states have adjusted their laws to make their economy more craft beer friendly. And you'll notice in those states, you have higher volumes of beer production per capita. So I think those are the avenue to go if you're looking to increase tax revenue.

FRIESEN: So that the craft brew industry has taken a lot of market share from the big brewers. Hasn't it--

SCOTT STRAIN: I mean it's certainly--

FRIESEN: --put a little pressure on them?

SCOTT STRAIN: --it's market share but it's actually more dollar share is the bigger portion that-- that continues to rise.

FRIESEN: OK. I get it. Thank you.

SCOTT STRAIN: Thank you.

LINEHAN: Thank you, Senator Friesen. Oh, Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. Congratulations on your extraordinary growth.

SCOTT STRAIN: Thank you.

McCOLLISTER: Were you able to utilize any of the incentive programs from the state of Nebraska?

SCOTT STRAIN: So we started the process for, I forget the name of it now but it has multiple tier levels for a credit.

McCOLLISTER: The Advantage Act?

SCOTT STRAIN: Yeah. Exactly. We started that process. You know for us, Tier 1 was really going to be the only option for us. And at-- the potential incentive with that tax credit is-- is not big enough to really deal with the additional burden of the paperwork and fine-- audited financials and the extra expense that goes along with that. So we-- we tried to keep up with it for about the first year and it-- it's just not something we're going to continue to pursue.

McCOLLISTER: So you never got your credits?

SCOTT STRAIN: No. It-- it-- it would take, I think, at least for four, four or five years before we would have been eligible for something.

McCOLLISTER: If Nebraska offered you a deal where you can get 20 or 30 percent of that without all the paperwork, would you do it?

SCOTT STRAIN: Yeah, I mean, yeah. Obviously, any type of incentive is-- is-- is a great option.

McCOLLISTER: Thank you. And once again, congratulations.

SCOTT STRAIN: Yeah. Thank you.

LINEHAN: Thank you, Senator McCollister. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Just out of curiosity, you're-- you're in La Vista, correct?

SCOTT STRAIN: Correct.

KOLTERMAN: Do you know, do they have an 840-- LB840 monies available in that community? That's a growing town or growing.

SCOTT STRAIN: Yeah, I'm not familiar with that.

KOLTERMAN: OK. I'm just curious. Thank you.

LINEHAN: Thank you, Senator Kolterman. Other, other questions?
Seeing none, thank you very much for being here.

SCOTT STRAIN: Thank you for your time.

LINEHAN: Now we will go to neutral, if there's anyone neutral. I
think they all left. Are you coming up neutral? OK.

McCOLLISTER: Just changed his position.

LINEHAN: Can I see by hand of how many more people plan on
testifying on this bill. OK. Hi.

JOHN KNAPP: Thank you, Senators. My name's John Knapp. I'm from
Springfield, Nebraska. J-o-h-n K-n-a-p-p. And I'm a small farmer
and the handouts I'm giving you, the top sheet is my tax, what I
paid in taxes from 1988 to 2018, which in, they've been
referencing, around 2004 I was paying \$3,106-- \$3,161.50. This
year my tax bill was \$8,426 and that's thanks to some of the
rebates. In 2016 I paid \$9,100, roughly, \$9,200, and I have a--
this is an 84-acre farm with a house on it. I also have another
80 acres that has the same, roughly the same, tax. The increase
is basically the same. It's bare land, no houses on it. And then
the second page, I couldn't find my receipts. And this is the
county's, you know, worksheet, tells you where all the money
went. Roughly 88 percent of my property tax goes to the school

system. And in early 1990 we had a bond issue in the district and I protested it and I got labeled as antistudent because-- and-- and in the district the superintendent paid less property taxes than I did. And so I wrote a letter to the Governor, Governor Nelson, and I indicated to him that property taxes should be looked and changed because a guy was calling me antistudent and he's paying less taxes to the system than I am, and he's paying about two-thirds of what I was. At the time, this was roughly the cost of one student per year. My farm pays roughly, the 2-- 240-- 240, yeah, 240 acres pay-- pays roughly one student a year in property taxes. And then he-- he, when Governor Nelson wrote back to him, he said I was analyzing the situation wrong, that the superintendent was paying his residential property and I was paying my residential property plus my business property. And he said the other residential property owners, their business will pay their property tax to the system. Well, if we-- the problem with the situation is, is that the largest employer in the state is government, nonprofits, and they pay no-- their businesses pay absolutely no property tax. And so they-- and then when you go into the Omaha system, Lincoln and Omaha have well fields in Sarpy County. Omaha has a sewer-- big sewer plant down by Bellevue. They pay no property taxes on that, to my knowledge.

LINEHAN: OK. Thank you. Questions from the committee? Yes, Senator McCollister. Thank you.

McCOLLISTER: Yeah, thank you, Senator Linehan. Have you seen your property values drop now?

JOHN KNAPP: Well, according to this they went down. We've gotten-- I assume it's because of the tax rebate that we get. That's went down from a level-- the high was \$9,200 and it went down to \$8,400 this year. But-- but for the assessments, I-- we haven't gotten much break from our assessor on our assessments.

McCOLLISTER: When you get your assessment from the assessor,--

JOHN KNAPP: Uh-huh.

McCOLLISTER: --is the value the assessor ascribed to your property higher or lower than you think it is?

JOHN KNAPP: I think it's higher. There's two reasons. One, he's assessing the value of the acres. I'm in greenbelt so I'm supposed to be getting it. This is supposed to be a discounted value from what the, you know, land value is because I'm 20 miles from Omaha and, you know, the developer influence. So this is supposed to be a special assessment because of the greenbelt. It used to be called greenbelt. Anyway, when he give us, in the old days, the house, the land under the house was about \$12,000.

When the greenbelt-- when they started with the greenbelt, he jumped it up to \$62,000 and we've been fighting him. I've been to TERC five times or six times and they just say, well, it's the same. He compares it to a lot for a house close to Papillion and he doesn't look-- they don't look into the difference in the-- you know, you got the sewer, the fire, hospitals, grocery stores, other things close by, and I don't have that. I'm five miles out of Springfield which is a little town. And so I think that's, you know, we've been to the Legislature before in years past and we thought we got it solved. And the assessor changes the way he calculate it, and we're down. I think last year he-- he assessed it at, I think, \$42,000, \$39,000, somewhere in there, and our Board of Equalization reduced it for the-- I think there's 40 rural residential acreages and farms that appealed and our Board of Equalization renewed. The assessor's taking that to TERC Board and we'll have to see how that comes out. But the last TERC hearing we had, a neighbor, took him two-- about a year and a half to two years before they heard his case. So we won't know if we're success-- if this-- this lower reduction is because of last year's Board of Equalization ruling. So I may be back up the next-- well, he raised it back up again. The-- the-- the land under the house is back up to \$40,000. So we're gonna have to go to the Board of Equalization

again. And I don't know if they'll stick with their ruling last year or not. Sorry to take [INAUDIBLE].

McCOLLISTER: Sounds-- sounds like a full-time job.

JOHN KNAPP: It is. It really is.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Are there other questions from the committee? Senator Kolterman.

KOLTERMAN: So if I'm reading this correctly, well, first of all, thank you for coming. It's important for us to hear this. If I'm reading your paperwork correctly, your-- your land for 80 acres with a house is valued at \$836,000.

JOHN KNAPP: I couldn't-- I'm very disorganized. That's my cousin's worksheet but-- but it's for 120 acres. But, yes, that's-- he's similar. And that front page is-- actually I could look up. They don't keep the records of that worksheet in the back you got.

KOLTERMAN: OK.

JOHN KNAPP: And all I could get was the taxes I paid for-- since 1988. They don't keep a copy of that worksheet.

KOLTERMAN: I'm just looking at your real--

JOHN KNAPP: Yes.

KOLTERMAN: --property, your bill that Harold Knapp--

JOHN KNAPP: Yeah, that's my cousin.

KOLTERMAN: Oh, that's your cousin.

JOHN KNAPP: Yeah. He's a better recordkeeper.

KOLTERMAN: OK. Then I-- I can't ask you questions about his property.

JOHN KNAPP: OK. Sorry.

KOLTERMAN: No.

LINEHAN: Thank you, Senator Kolterman. Other questions? This is your property, though.

JOHN KNAPP: Right. That's my property.

LINEHAN: So this is what's happened since 1988.

JOHN KNAPP: Yep.

LINEHAN: So when we did LB1059 in 1990, it-- it did go down for a while. But then it's gone way back up.

JOHN KNAPP: We-- we had a county commissioner that when he was in office like 20-25 years, and when he retired he basically said, my proudest achievement is I didn't raise the mill levy. And-- and but the valuations kept going up every year. So, you know, my proudest-- what I want is to see, you know, when in some of the later years there, like 2012, somewhere it's up 20 and 30 percent a year. And-- and we didn't have a mill levy decrease. You know, it's-- that's a bonus to the county and schools and--

LINEHAN: Thank you for that.

JOHN KNAPP: Sorry.

LINEHAN: Thank you for being here. Next proponent.

FRIESEN: I think you ran out.

LINEHAN: Oh, we ran out of proponents?

_____ : That will speed it up. [LAUGHTER]

LINEHAN: Thank you. OK. Then I guess we go to opponents.

ANTHONY MASON: Hello.

LINEHAN: Hello.

ANTHONY MASON: Long drive. Good afternoon, Chairperson Linehan and members of the Revenue Committee. My name is Anthony Mason, A-n-t-h-o-n-y M-a-s-o-n, and I'm the zoo director of Riverside Discovery Center in Scottsbluff, Nebraska. In speaking for Riverside Discovery Center, or RDC, our board, staff members, and the critically endangered species within our park, and the vocal and supportive community that surround us, I would like to give our opposition of LB314 and LB497, specifically, I should say to the parts that affect the-- the zoo. Since LB419 was signed into law with the support of 39 senators and Governor Ricketts, our zoo has continued its efforts to increase our economic impact in the western region of Nebraska. We've been making a lot of progress in the last few years and there's a strong need for interactive educational resources, quality of life improvements, and tourist activities in western Nebraska. The RDC has the region's only zoo, complete with comprehensive educational programs, critically endangered species breeding programs, rescued and abandoned wildlife, and a facility that draws tourists from around the region. Investments and partnerships with the zoo have led to major increases in on-site attendance. In 2018 we had over 45,000 on-site visitors at the zoo. This is somewhat small in comparison to some other things in the state, but this was a huge year for us. It was an 18 percent increase over 2017, which was already 21 percent higher

than 2016. An economic impact study conducted at the beginning of this year estimated that the zoo creates 11 to 12 additional jobs at other area businesses and over a million dollars in additional local sales, not including zoo admissions or sales. We're a small zoo in a rural community and I'm often met with surprised expressions that there's even a zoo in Scottsbluff at all. That surprise usually turns to joy when people actually visit the zoo and walk through it for the first time. It's a serious source of pride for our community. Local business owners tout the facility when seeking to attract out-of-town or out-of-state talent. It's a quality of life factor for our small community. Anything that negatively impacts our ability to invest in improvements at our facility will only increase the already difficult task that we have in attracting out-of-state tourists. With that in mind, we ask that you do not pass LB314 or LB497 as-- as is. I would like to say on a personal level, and I didn't have it written in here, but I-- I do want property tax relief and I know, just like many others who stepped up here, I do not have a solution to that problem. I own property myself, you know, and I know that it's important and I know that agriculture is the backbone of this state. I just know that for my facility, anything that can help us in just improving the impact we have on the local community, you know, it's a benefit, so.

LINEHAN: Thank you very much. Questions from the committee?

Senator Groene.

GROENE: You keep talking about the community, but on that sales tax, it's just not the state. It's also 2 percent for your-- for your community--

ANTHONY MASON: Uh-huh.

GROENE: --to help with the streets and to help with your local property tax. So we're not-- you're not just not collecting for the state. You're collecting-- not allowing your community to collect either.

ANTHONY MASON: Uh-huh.

GROENE: I've been to your zoo. It's really nice. Been there two or three times.

ANTHONY MASON: Thank you.

GROENE: Thank you. But that's the point.

ANTHONY MASON: Yeah.

GROENE: And you're not paying it, the consumer is.

ANTHONY MASON: Well, you know, and-- and it is, for me it-- it's a gray-- you know, it's a gray issue. It's not so cut and dry.

You know, we want to do the best we can to try and improve. We want to do the best we can to attract tourists and to allow visitors, because it is a somewhat impoverished area, to visit as many times as they can. And anytime prices have to increase or anything has to go up, it-- it makes it, you know, that much more difficult. So it-- it's complex and, you know, we just want to do the best we can to--

GROENE: Thank you.

ANTHONY MASON: --exist.

LINEHAN: Thank you, Senator Groene. Senator, anybody else have a question? How much is a day pass at Scottsbluff zoo?

ANTHONY MASON: Our adult admission prices are \$9.50.

LINEHAN: Children?

ANTHONY MASON: Children are \$6.50, toddlers are \$3.50.

LINEHAN: Thank you very much. Other questions? Thank you for being here. Appreciate it.

ANTHONY MASON: Thank you.

LINEHAN: Next opponent.

MICHAEL TAVLIN: Good afternoon, Senator Linehan and Senators. My name is Michael Tavlin, M-i-c-h-a-e-l T-a-v-l-i-n, and I'm the chief financial officer for the Speedway Motors Museum. I'm here today to oppose LB314 and to specifically ask you not to repeal the sales tax exemption for historic auto museums which the Legislature wisely passed in 2014 by a vote of 49 to 0. The current law was enacted to correct a defect in prior legislation which allows a sales tax exemption for the purchase of fine art by museums but which the Nebraska Department of Revenue refused to apply to the purchase of objects by our museum for its collection, in spite of the fact that world famous fine art museums have for years included objects of this type in their collections. Our museum-- museum is an IRS-recognized 501(c)(3) organization and annually attracts thousands of visitors and is consistently rated as the number one or number two tourist attraction in Lincoln on TripAdvisor. You may be curious to know what we do with the tax savings. Well, we don't pay executive salaries or board member fees. One hundred percent of our donations are reinvested in acquiring objects for our collection and in maintaining our collection. That 100 percent factor is important to our donors. Referring to the photos I provided, here are some examples of what the savings have helped us purchase. We purchased the entire contents of the A.J. Watson garage in Indianapolis and installed it as a diorama at the

museum. Watson was a genius master car builder, over five decades of fame. His cars won six Indy 500s from '56 to '64. They dominated the field in '63, and the top four finishers in '64 were all Watson's. Having the Watson garage in our museum is like having Norman Rockwell's studio installed at the Sheldon. We purchased the Black Deuce, the second photograph, one of the most just recognizable, successful, and the longest lasting dirt track racers in history. The Black Deuce was credited with over 1,000 feature wins and 200 track records over a 32-year racing career. Having the Black Deuce in our museum is like having a rare sculpture on display at the Sheldon, except this is rolling fine art. And the third picture is the Cornelian, which was built in 1913. It was driven by Louis Chevrolet, who you see pictured here behind the wheel in the Indy 500 in 1915. This car is rolling fine art and it is rolling history. And these are just three examples how we've wisely invested these tax savings. I thank you for your attention and ask you again to preserve the sales tax exemption. Please don't think of this tax exemption as lost revenue. Instead, think of this exemption as investment in fine art, history, and in Nebraska tourism. The returns to the state are worthy of the investment. And I'd be happy to respond to any questions.

LINEHAN: Thank you very much, sir. Are there questions from the committee? Yes, Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Do you charge admission?

MICHAEL TAVLIN: We do.

FRIESEN: Do you charge sales tax on the admission?

MICHAEL TAVLIN: We do.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions? I have one. Did you say his name's Chevrolet? What did you say?

MICHAEL TAVLIN: Louis Chevrolet, one of the Chevrolet brothers.

LINEHAN: Very cool. Thank you for being-- oh, Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. I have a question. Where are you located?

MICHAEL TAVLIN: Lincoln, Nebraska.

KOLTERMAN: I know, but where at in Lincoln?

MICHAEL TAVLIN: Three forty Victory Lane, off of Sun Valley Boulevard, just north of West O Street.

KOLTERMAN: OK. Thank you.

LINEHAN: Other questions? Thank you very much.

MICHAEL TAVLIN: Thank you, Senator.

LINEHAN: Hi.

TOM WILMOTH: Good evening now, Madam Chairwoman, members of the committee. Thank you for letting me testify today. My name is Tom Wilmoth, T-o-m W-i-l-m-o-t-h. I'm one of the founders and owners of Zipline Brewing Company here in Lincoln, Nebraska. Thanks to the great support of our customer base, as well as some favorable decisions by this body a couple of years ago, we have currently become the largest taxpayer in the craft beer sector in Nebraska. We produce roughly 9,000 barrels a year of beer. We paid-- have paid \$275,000 in excise taxes since our inception and a little-- a little under \$75,000 last year. We are, therefore, acutely aware of the impact of the decisions that are in front of you. And as outlined in my prefiled testimony, which was submitted yesterday, we do believe that there is fairly clear evidence that there is a direct inverse relationship between the size of excise taxes and production of craft beer and the number of breweries in states that have higher taxes. As you've heard from some of my colleagues and other members of the Craft Brewers Guild, Nebraska already has

the highest tax rate in the adjoining area. We are about 11 cents higher than the national median. One of the questions presented earlier was what could be done to facilitate the growth of the industry, and I think one of the interesting responses to that is, that you may not want to hear, is actually reduce excise taxes, as Senator Vargas has actually proposed. And since it's Valentine's Day, I'll send him a little love for doing that. But the reality is, at least according to one of the studies that I've cited in my testimony, the increase of excise taxes and the higher prices that are charged in countries in the European Union, for example, actually depress the overall revenue related to beer sales. So although the individual excise tax or the sales tax charged to a customer may appear to be an attractive way to raise funds, the better way is to, obviously, grow the industry. And one of the ways to do that is through a reduction in excise taxes. We, for example, realized a very, very real benefit from the reduction in federal excise taxes last year when our federal excise tax was cut in half. We directly put that money into a new full-time position for a quality assurance, quality control person. That person is dedicated to ensuring that our product is the best it can be and that our customer experience is optimal. We think that is the future of this industry. We think that's the way to grow our businesses, to ensure that our customers are satisfied, and to

ultimately increase the base of tack-- of production so that additional taxes can be paid on that.

LINEHAN: Thank you very much. Do we have questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So I'd, just to clarify things again, and I think I've followed the excise tax thing, but that affects all alcohol across all industries. Right? It's the same. I mean the pass-throughs of the larger beer companies, the excise tax is-- is applied the same across that.

TOM WILMOTH: As proposed in the bills that are pending?

FRIESEN: No, before, before the-- let's just talk currently. So all the alcohol taxes have an excise tax paid on them, correctly?

TOM WILMOTH: I can only really speak to the beer industry. But-- but our beer industry does have--

FRIESEN: Yeah.

TOM WILMOTH: --an excise tax imposed on it, yes.

FRIESEN: And so it's applied to-- whether it's manufactured in the state or out of state, it's applied the same.

TOM WILMOTH: Correct.

FRIESEN: And so as it passes through that chain, they experience the same, I guess, doubling up of taxes, so to speak, if everybody adds--

TOM WILMOTH: Correct,--

FRIESEN: --to it.

TOM WILMOTH: --the phenomenon that Mr. Engelbart explained, which is--

FRIESEN: Yeah.

TOM WILMOTH: --as it moves through the three-tier system there are margins later on top of--

FRIESEN: Right.

TOM WILMOTH: --of the manufacturers' costs.

FRIESEN: OK. And so you did say you receive-- receive a production tax credit on the federal level?

TOM WILMOTH: But not a credit, sir. The-- the tax rate that was charged at the federal level was previously \$7 per barrel--

FRIESEN: And they lowered it.

TOM WILMOTH: --and they lowered that. They cut it in half--

FRIESEN: OK.

TOM WILMOTH: --and that for us meant, as a company, for us, we harvested about \$32,000, which we put directly into the salary for that position I described.

FRIESEN: Was that just for craft brews that you know of?

TOM WILMOTH: There-- well, I believe there were other reductions generally, but the-- the one that I'm speaking of that affected us was related to the craft beer industry.

FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Seeing none, thank you very much for being here.

TOM WILMOTH: Thank you for your time.

LINEHAN: Next opponent.

JESSICA SHELBURN: Good afternoon, Chair Linehan, members of the Revenue Committee. My name is Jessica Shelburn. I am the state director of Americans for Prosperity here in Nebraska. AFP is committed to standing with the people of Nebraska against damaging tax rate increases. As such, one of the major concerns

we have with LB4-- LB314 is the half percentage point increase in the state sales tax. Last year the average Nebraskan paid \$2,503 per household in state sales tax. If this legislation is enacted that burden will increase to \$2,730, an increase of nearly \$230. This increase would hit the low-income communities the hardest as they already spend a disproportionate amount of their income on sales tax. Additionally, studies have shown that sales tax increases prompt people to leave the state to make their purchases. With neighbors who have lower sales tax rates, as we've heard earlier today, we risk some of that business going to other states. Furthermore, if we could see tax pay-- furthermore, we could see taxpayers permanently leave Nebraska if this proposal is enacted as LB314 also includes a wealth tax. This tax surcharge of 7.85 percent on individuals making \$250,000 or more a year-- taxes that take aim at punishing high earners push those taxpayers and their revenue that they would pay in taxes out of state. This is no way to establish Nebraska as a competitive environment to live in the state for business. Our tax system must be equitable and not reward and punish individuals based on their income. While this legislation is currently deeply flawed, there are some provisions of LB314 that are a step in the right direction, such as eliminating some of the sales tax exemptions for untaxed goods and services. However, to be clear, eliminating these exemptions is only one

part of the equation. And when you couple that with raising the sales tax you're hitting these individuals with even more taxes. The continuation of a tax and spend policy will continue to fail Nebraskans. It is time for lawmakers on both sides of the aisle to understand increasing tax revenues are not the answer to solve our property tax issue and oppose this bill. Americans for Prosperity will continue to advocate for an economically efficient tax system that promotes economic growth and has two important features: low rates and a broad tax base with few exemptions and deductions. It is time for a new approach to help build a brighter, more prosperous future for Nebraska. Thank you so much for the opportunity.

LINEHAN: Thank you. Are there questions? Senator McCollister.

McCOLLISTER: Yes. Thank you, Madam Chair. Just to be sure I heard you correctly, you're-- you said you would eliminate some of the exemptions for sales tax?

JESSICA SHELBURN: Our policy is the broader your base, so eliminating some of those sales tax exemptions helps broaden the base. But when you do that coupled with the sales tax increase, which is actually an increase of about 9 percent when you look at it, is-- is not the best policy--

McCOLLISTER: I understand.

JESSICA SHELURN: --and path forward.

McCOLLISTER: Thank you. You also made a comment about the-- the
7.84 percent surcharge--

JESSICA SHELURN: Uh-huh.

McCOLLISTER: --on income above 200. Is-- is that standard in
some other states?

JESSICA SHELURN: I cannot answer that for you, but I can get
back to you with an answer on that.

McCOLLISTER: OK. Thank you very much.

JESSICA SHELURN: I apologize.

LINEHAN: Thank you, Senator McCollister. Other questions from
the committee? You said something about sales tax. What, are
sales taxes around the-- in adjoining states lower than
Nebraska?

JESSICA SHELURN: If we did the half a cent increase, I believe
we would be tied for second place with--

LINEHAN: Second from the bottom or top?

JESSICA SHELBURN: Second from the top. I think that there would be one at 6.5 percent and then Nebraska and another state would be tied at 6 percent.

LINEHAN: What is it in South Dakota? Do you know?

McCOLLISTER: Seven and a half.

LINEHAN: OK. Thank you, Senator McCollister. But they have no income tax. OK. All right. Other questions? Thank you very much for being here.

JESSICA SHELBURN: Thank you.

LINEHAN: Hi.

KIM KAVULAK: I started out with good afternoon but it's now evening I think. Madam Chairman and Revenue Committee members, thank you for the opportunity. My name is Kim Kavulak, K-a-v-u-l-a-k. I am cone owner-- co-owner and vice president of Nebraska Brewing Company in Papillion and La Vista, and I am here today in opposition of both LB314 and LB497, which propose a shocking increase on alcohol tax, including beer, which directly impacts my business. Twelve years ago my husband and I both quit our day jobs IT to follow our dream of opening a local brewery. In that time we have invested several million dollars in the state and seemingly several million hours creating jobs and working to

build our business. We're very proud of what we've done and we've become a nationally known brewery, winning well over 100 medals, both nationally and internationally, including six Great American Beer medals, which is all really nice. At the end of the day, an increase like this could be devastating to a business like ours. Three hundred and forty-five percent is pretty shocking and there's absolutely no way we could absorb that without passing it on to, as you've heard, every tier of the system, including distributors, retailers, and ultimately consumers. Nebraska currently ranks 20th already in excise tax and this increase would catapult us to number one. It's not something we necessarily want to be number one in. Surrounding states already enjoy extremely low excise tax rates and, therefore, have higher volumes of production in their states and their growth has been more significant. Our footprint right now is 20 states. At our peak outside of Nebraska we were at 32 states. We purposely chose to retract that footprint and focus more locally, particularly on Nebraska and the Midwest corridor. This increase could prove so devastating that we would have to really rethink our model footprint and our distribution model to distribute more outside of our own state-- surrounding states, and we're currently in four countries so we would look to maybe possibly export more. In order for breweries to open and operate in Nebraska, the tax climate has to be reasonable and friendly.

Otherwise, breweries will look to open their businesses other where or not open at all. Imposing any increased tax on alcohol, among other goods and services that are included in both bills, does not create a solution for the property tax problem. We're just shifting the burden and we don't feel like that's the-- the correct solution. So, respectfully, I would ask you to oppose both LB314 and LB497. And with that, I can answer any questions.

LINEHAN: Thank you very much. Senator Kolterman.

KOLTERMAN: Thank you, Ms. Kavulak. Is that correct?

KIM KAVULAK: Close enough.

KOLTERMAN: All right.

KIM KAVULAK: I've been called worse.

KOLTERMAN: You-- you have a pretty big footprint.

KIM KAVULAK: We do.

KOLTERMAN: You say you're in 20 states?

KIM KAVULAK: We are.

KOLTERMAN: How-- how did you-- obviously, you have a pretty-- pretty sizable production line.

KIM KAVULAK: We do. We actually have two facilities, so we have a smaller production facility that we opened in 2007. And our footprint actually is a result of the timing of our opening in 2007, because, as most of you probably remember, about a minute after that we went into a recession and we couldn't sell a lot of beer in the state. And Nebraska as a whole was fairly new to craft beer so people weren't kind of getting on the bandwagon yet. The recession did not help. So what we had to do is take our beer to other markets that were more mature with respect to craft beer. And so that started the snowball, I guess. We went to New York first, of all things, then Philadelphia. And then it kind of snowballed and all of a sudden we were in 32 states. We opened our second facility five years ago, so we had the opportunity then to either continue to grow that footprint or we chose to refocus our footprint and come back from 32 states to about 20 and really focus on Nebraska as a whole and our Midwest corridor.

KOLTERMAN: So do you buy-- do you buy most of your products in Nebraska [INAUDIBLE]--

KIM KAVULAK: We are buying--

KOLTERMAN: --what you manufacture with?

KIM KAVULAK: We-- at the time we bought our manufacturing equipment there were not companies in Nebraska that were selling that. I can tell you today if we expanded and added equipment I would absolutely do that.

KOLTERMAN: But-- but I'm talking about like hops and--

KIM KAVULAK: Hops we are growing. We are buying more and more hops and using them in our-- in our products. Midwest Hop growers in Plattsmouth has easily the-- the most mature farming operation for hops. And we are steadily-- they are growing more and better quality hops, and we are, as brewers as a whole, but personally we are using more of their products.

KOLTERMAN: And what about grain products? Do you buy your grain products locally?

KIM KAVULAK: Not yet. That's a-- a market that's just emerging.

KOLTERMAN: OK. What about where do you-- where do you get rid of your distillers grain?

KIM KAVULAK: Grain, we currently work with several farmers. One is from Iowa and one is from Nebraska, and they take-- we just actually give that to the farmer and they use it to feed their livestock.

KOLTERMAN: So they feed it.

KIM KAVULAK: Uh-huh.

KOLTERMAN: And one other thing: If I heard you correctly, you said you are operating in four countries--

KIM KAVULAK: Yes.

KOLTERMAN: --outside the United States?

KIM KAVULAK: Yes.

KOLTERMAN: Where would that be? I'm just curious.

KIM KAVULAK: Japan, Germany, China, and current-- as we're speaking, Indonesia.

KOLTERMAN: How do you-- how do you market-- how do you distribute?

KIM KAVULAK: You work with importers, so similar to the distribution in the United States. We work with distributors all over the country and we truck the beer to whatever state it goes to. We have agreements with them. Similar to that, we have importers in each of those countries that we work with. Japan is our longest standing relationship. We've been exporting to Japan for seven years, six years.

KOLTERMAN: Have you ever-- can I keep going?

LINEHAN: Sure.

FRIESEN: We've got all night.

KOLTERMAN: Thank you.

LINEHAN: Yeah. [INAUDIBLE].

KOLTERMAN: Have you ever received any-- somebody asked earlier, have you received any of the state programs that we make available through our economic development or through La Vista, because you're in La Vista.

KIM KAVULAK: We are. We have one in Papillion and one in La Vista. Yes.

KOLTERMAN: OK. So you have two manufacturing--

KIM KAVULAK: Uh-huh.

KOLTERMAN: --facilities. Have you received any state funding for any of your programs?

KIM KAVULAK: No. Much like Mr. Strain, who talked earlier about the Nebraska Advantage Act, we started that program but it was so cumbersome that it just was too much to keep up with. And we-- we ended up letting it lapse.

KOLTERMAN: OK. Thank you.

KIM KAVULAK: Uh-huh.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: Thank you. Curiosity,--

KIM KAVULAK: Uh-huh.

GROENE: --you said you don't use any grain products from Nebraska. I know barley is special and has to be raised at a higher altitude in the front range of Colorado. But don't you use corn and other products?

KIM KAVULAK: We don't really use those in any of our, you know, in any of our particular recipes. If we did we would absolutely use those Nebraska-- as Nebraska products.

GROENE: What grain do you use? That's what I'm getting at.

KIM KAVULAK: We're-- currently all of our grain products are obtained through a company called Briess malting out of Wisconsin.

GROENE: Is it a secret ingredient you don't want to tell me?

KIM KAVULAK: No. No. No, we -- they're diff-- they're all different, depending on the beers we brew. I mean our-- our war

chest of beers is well over 100 recipes. We have 24 on in our brew pub, our taproom, rather, at any given time and they're very different. So there are different grains that are used in each of those. And I know--

GROENE: So barley, oats, corn,--

KIM KAVULAK: Yes.

GROENE: --wheat?

KIM KAVULAK: And Briess, who I've just actually got to visit for-- after 12 years I finally got to go visit their operation this past December, and they grow around country. So they actually grow in North Dakota and Wyoming and Wisconsin. So they're-- they're farming their products out all over the Midwest as well.

GROENE: So you truck in the grain,--

KIM KAVULAK: Yes.

GROENE: --then you ferment.

KIM KAVULAK: Yep.

GROENE: Question:--

KIM KAVULAK: OK.

GROENE: --On these other states, how is the excise tax handled?
In Nebraska we tax the manufacturer. Is that right?

KIM KAVULAK: Correct.

GROENE: So you're taxed here because you produce it here.

KIM KAVULAK: For-- for beer that we distribute in state. For beer that I export out of state I do not pay Nebraska excise tax. The excise tax goes to the state where the beer is sold.

GROENE: You pay the federal one, though, right?

KIM KAVULAK: All the time, every day, even when the government's shut down. [LAUGHTER]

GROENE: So-- so we're not-- we're not gaining that tax from you that goes to Iowa.

KIM KAVULAK: That is absolutely correct. And so for us to have, I mean, something like this that would maybe force us to rethink that, that distribution model and put more beer out of state, would actually be a detriment to the excise tax that would be gained in state.

GROENE: What you're saying is you-- you would expand outside the state instead of Nebraska.

KIM KAVULAK: I'm saying it would have to be a consideration.

GROENE: All right. Thank you.

KIM KAVULAK: Uh-huh.

LINEHAN: Thank you, Senator Groene. Other questions? How many is it, if you don't mind, how many employees?

KIM KAVULAK: We have 40, 40 employees between our two locations.

LINEHAN: Forty employees. And you started when, two thousand and-- right before the recession?

KIM KAVULAK: Two thousand and seven. Yeah. We have a lot of-- we're fortunate we have a lot of employees that have been with us for a very long time. And that's-- that's another consideration in all this, the jobs that could be lost. And you know we feel like we've invested so much of ourselves and our life and literally our life savings, but we have a lot of people who have worked for us that invest-- invested a long time and they're part of our family. And to think about their-- their jobs being at risk is-- is-- is really scary actually.

LINEHAN: Thank you very much for being here. Oh, sorry, Senator Kolterman and Senator McCollister. Who was first? I don't know.

KOLTERMAN: Go ahead. He's older than I am. [LAUGHTER]

LINEHAN: Right.

McCOLLISTER: And better looking. I've-- I've been to your facility and taken a tour and tasted the product and it's just very impressive.

KIM KAVULAK: Thank you.

McCOLLISTER: And congratulations on your success.

KIM KAVULAK: Thank you very much.

KOLTERMAN: I'm just curious, are you the-- you're the largest brewer in the state?

KIM KAVULAK: We're the largest by capacity. In state I think, Mr. Wilmoth was up here, I think they-- they sell a little bit more in state than we do, but we're-- we're kind of all right neck and neck there. There's three or four of us that are right in that same zone.

KOLTERMAN: Thank you.

KIM KAVULAK: You bet.

LINEHAN: Thank you.

KIM KAVULAK: Thank you.

LINEHAN: I think we had an opp-- a proponent come back. There we go.

McCOLLISTER: We could be here all night at this rate.

ART NIETFELD: You want me to start?

LINEHAN: Yes.

ART NIETFELD: Well, first of all, I'd like to thank all you guys for-- for hearing this tax stuff. I can see you're putting in a lot of time here. But anyway, I'll just get right to it. I just want-- want to say that we people in rural areas just can't stand these high property taxes anymore and I don't think the city people can either. For farmers on cropland, we have to pay approximately 50 percent of our next-- net income in property taxes in a good year, and in a bad year that increases to all or more than all of our income. We have to pay property taxes whether we grow a crop or not. And for pasture it's even worse than that. I have one pasture that I rented out last year and the property tax and electric bill to pump water for the cattle took all the income from the rent, and that didn't allow anything to spray trees or anything. And actually, I have a contract now to sell that land. I'm-- I just decided to get rid of it. And anyway, luckily I live on the Kansas state line and about one-third of my land is in Kansas where the property taxes

are approximately one-third of the property taxes in Nebraska. I really should move to Kansas, but I like it where I am living and I have my farm operation established here. I have offered more of my Nebraska land for sale because of the property taxes, and I guarantee you I'll never buy any more Nebraska land. In the rural areas, seems like we pay income tax to the state, yet we don't get any money back for school funding except maybe for special education, whereas many of the city schools get over half of their funding from the state. We rural per-- people are, thus, paying for the city schools. And then besides that, when we go to town we have pay city sales tax to ports-- to support the cities even more. We also have to pay property taxes on our machinery and a lot of other stuff that we have just to farm. It doesn't seem right to me that us rural people and farmers have to support the cities, plus we support most of the schools and counties in our own areas. Just look around and see how many people have jobs that actually produce something that we need to live on. We are paying for those who don't produce anything useful. We have farm prices that will keep getting worse, not because of low prices or drouth but because of unfair tax burden on farmers. Take away farmers in Nebraska, and cities-- and cities in ever-- everywhere else would be destitute in a minute. Pete-- Pete Ricketts has a 3 percent per year cap on property tax bill on tax increase bill, and that's a good deal. But that

won't help-- help us farmers any. We can't stand any more property taxes whatsoever. We need a tax decrease. We need help now on property taxes. Young people who want to start farming simply can't borrow money to buy land. It takes one half or more of their net income to pay the taxes. I don't know how much time I got. But I do have--

LINEHAN: You don't have any more time.

ART NIETFELD: OK.

LINEHAN: But you did very good at getting through that.

ART NIETFELD: OK.

LINEHAN: Thank you very much. Can you-- I didn't catch this. Can you just state your name and spell it real quick?

ART NIETFELD: Art and my last name, Nietfeld, N-i-e-t-f-e-l-d.

LINEHAN: Thank you very much. And I saw a question over here. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Thanks for coming up today. We appreciate it.

ART NIETFELD: Well, thank you, guys.

KOLTERMAN: You say you own some land in Kansas.

ART NIETFELD: Right.

KOLTERMAN: Do they-- do they tax you based on what that land will produce or do they tax you on just property tax like we do?

ART NIETFELD: It's based on what it will produce.

KOLTERMAN: So-- so, as an example, they classify the land and then if you've got an irrigated quarter that may be taxed differently than a dryland quarter. Is that accurate?

ART NIETFELD: Well, yeah, irrigated would probably higher in Kansas than dryland, but it's still based on is produced.

KOLTERMAN: So-- so at the end of the day, when you file your-- at the SCS office or whatever it's called now, they've got a record every year what your production is.

ART NIETFELD: Well, no, they don't have that. They just-- they got formulas they go by on how much certain class of land will produce.

KOLTERMAN: OK.

ART NIETFELD: I do have two examples of two half sections. One's in Nebraska and one's in Kansas. And the taxes on the Kansas one are \$5,895 and the one in Nebraska is \$16,545.

KOLTERMAN: Same kind of land?

ART NIETFELD: Yeah, they're pretty much the same. Actually, the one in Kansas is ten acres less, but they're pretty much the same.

KOLTERMAN: OK. Thank you very much, Art.

ART NIETFELD: Uh-huh.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: Where do you pay your property taxes, to the county?

ART NIETFELD: Well, the county court. Well, some goes to county schools and Southeast Community College, but they're paid in the county courthouse.

GROENE: All right.

ART NIETFELD: If for-- you mean for Nebraska?

GROENE: For, well, no, for Kansas.

ART NIETFELD: Well, they're paid the county too, county courthouse, pretty much same as Nebraska.

GROENE: Do you know where your-- the school taxes go?

ART NIETFELD: Marysville, Kansas, is-- I live straight south of here, Marysville, Kansas.

GROENE: I know the area well, yeah.

ART NIETFELD: And actually this land I was referring to is in the Wymore school district.

GROENE: The one in Nebraska,--

ART NIETFELD: Yeah.

GROENE: --not the one in Kansas.

ART NIETFELD: Yeah, and the one in Kansas is in the Marysville, Kansas, school district.

GROENE: Do you know how the property-- I was always of the understanding Kansas did its tax rate across the state. It all goes into the state and then the property taxes are disbursed.

ART NIETFELD: No, I don't think so. I don't think so. I think it goes, there so much goes to-- it says, I got some tax statements. I only had two copies of them.

GROENE: That's the way it used to be. I don't know if it-- that's years ago.

ART NIETFELD: But it goes way to, like, USDA 364--

GROENE: All right.

ART NIETFELD: --and then some to the county and pretty much the same as Nebraska, I think. But evidently give more state aid in Kansas. And I grew up in Kansas and-- or in around Mary-- in Marysville, went to Marysville High School. We got a plenty good education I thought.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Did you say you had two tax statements, one from Nebraska and one Kansas?

ART NIETFELD: Yes, I do.

GROENE: Can we get--

LINEHAN: Could you-- pages?

ART NIETFELD: OK. I got two copies of it, of each.

LINEHAN: We get-- we've got these young ladies over here. If they could go make the committee copies, I'd appreciate that. Other questions from the committee? Seeing none, thank you very much for being here.

ART NIETFELD: OK. Well, thank you guys for all your hard work.

LINEHAN: Thank you. Other proponents? I'd see-- see if anybody else came back. Other proponents? OK. We'll go back to opponents.

CODY SCHMICK: Good afternoon, Chairperson Linehan and members of the Revenue Committee. My name is Cody Schmick, spelled C-o-d-y S-c-h-m-i-c-k, and I am part-owner of Kincaider Brewing Company in Broken Bow, Nebraska. I'm here today in opposition of LB314 and LB497, and I ask that you include this testimony in the record for each of these bills. In 2016, LB1105 was passed; shortly after, we opened. Many of you voted in favor of that bill and I thank you for your support. Our model is a bit different than most breweries in the state in that we were planning on opening the statutory maximum of five locations throughout the state. We love being in several Nebraska cities and having that direct contact with our customers in each community we serve. If that limit was ever raised we would open more taprooms in more communities throughout the state. We are currently in Broken Bow, Grand Island, Lincoln, and we're working on Omaha. LB1105 aided us in growing this business from 4 to over 60 team members with brewers, kitchen staff, servers, salespeople, artists, accountants, and most importantly beer taste testers. In addition to Kinkaider Brewing, my dad and I own four small neighborhood grocery stores in the state, McCook,

Broken Bow, and two here in Lincoln. Part of my job in the grocery store is working with distributors and building a successful selling beer case. This process includes running movement reports on what sells and what doesn't. In our stores we have seen year after year that once a six-pack of beer exceeds that \$10 price point at the register, the sales significantly drop. A lot of times the beers we choose to discontinue and pull from the set are because of this very reason. The majority of Nebraska beer six-packs land that \$8.99 or \$9.99 price point. If this lift in excise taxes were passed, it would push the majority of Nebraska craft beers into that hard-to-sell price point and then, in turn, getting pulled from beer sets altogether. The big guys can absorb that more easily than us and keep price points consistent. Kinkaid Brewing has chosen a model at this time to sell only in the state of Nebraska. If these bills passed, it would-- it will de-incentivize every Nebraska brewery from growing their brands right here in the state where it's produced and take a hard look at moving to an out-of-state model. Even nonbeer drinkers are really excited about the growth that Nebraska craft beers had over the past few years. Please don't stifle or kill that growth. In closing, I would strongly urge you to vote no on LB314 and LB497. Thank you for your time and consideration. I'll take any questions.

LINEHAN: Thank you very much. Are there questions? Seeing none, thank you for--

CODY SCHMICK: Thanks.

LINEHAN: --being here.

DUSTIN ANTONELLO: Good evening, Chairwoman Linehan and members of the Revenue Committee. My name is Dustin Antonello, that's spelled D-u-s-t-i-n A-n-t-o-n-e-l-l-o, and I'm speaking on behalf of the Lincoln Independent Business Association. The Lincoln Independent Business Association is opposed to LB314 because we do not believe raising taxes on sales, income, and alcohol to pay for lower property taxes is the best course of action to provide property tax relief for Nebraskans. This bill would not only increase the overall sales tax to 6 percent, it would also eliminate several sales tax exemptions on services. This added sales tax burden will have a larger impact on residents of Lancaster, Sarp-- Sarpy, and Douglas Counties, which paid a combined \$832 million in sales taxes in 2017, compared to \$810 million paid by the rest of the state. Simply put, these 3 counties paid more in sales taxes in 2017 than all the remaining 90 counties combined. The elimination of sales tax exemptions on a number of services will also disproportionately impact industries that are comprised of small businesses. This

will directly increase the prices that customers pay for dry cleaning, lawn care, transportation, auto repair, pet services, just to name a few. If your child wants to take music and dance lessons, it will now be taxed by this bill. Every customer will be on the hook for paying these additional sales taxes, which may cause some customers to cut back or eliminate these services altogether as they become more costly. In addition to raising the sales tax burden, LB314 imposes a 7.84 percent surcharge on income earned over \$250,000. Many small businesses and farmers will be severely impacted by this surcharge because they file and pay their taxes under the individual income tax plan. This bill would also significantly raise taxes on alcohol manufacturers and wholesalers. These massive tax increases on the beer, wine, and spirits industries have the potential to harm many local producers in Nebraska. According to the Nebraska Craft Breweries Guild, this increase in state excise tax would put small independent craft breweries at tremendous risks for stunted growth or, worse, could force some of them to close their doors completely. LB314 fails to provide a long-term solution for property tax relief. This bill does not do anything to control costs or spending at the local level by the political subdivisions that levy property taxes. Please oppose LB314.

Thank you.

LINEHAN: Thank you. Questions? Senator McCollister.

McCOLLISTER: Thank you, Chairwoman Linehan. I don't know if you were in-- in the room here when Americans for Prosperity made their statement. Were you here?

DUSTIN ANTONELLO: I was, yes.

McCOLLISTER: And you heard them say that sales tax exemptions should be cancelled or eliminated?

DUSTIN ANTONELLO: Correct. Yes, I did hear that.

McCOLLISTER: Is that-- is that an opinion you share?

DUSTIN ANTONELLO: No, it is not. You know, I think the sales tax exemptions are tied to a lot of industries that are-- are members of LIBA. They're small businesses. They worked very hard to gain the little profits that they have. And, you know, I think a sales tax increase on some of these industries that have been singled out in the bill will be very harmful to them and may deter customers from visiting their stores and shops.

McCOLLISTER: We have a property tax problem in the state, correct?

DUSTIN ANTONELLO: Yes, I agree with that.

McCOLLISTER: How do you-- how do you advocate that we fix that?

DUSTIN ANTONELLO: I think that's the million-dollar question and, you know, I think it all begins right now with reducing spending and trying to grow the state of Nebraska, bring more people into Nebraska, spur economic growth. I just don't believe that shifting of property taxes to-- I mean increasing sales taxes, income taxes, and other taxes and shifting that to property taxes is a long-term solution.

McCOLLISTER: What categories of expense for the state of Nebraska would you recommend cutting?

DUSTIN ANTONELLO: Can you repeat that?

McCOLLISTER: Sure. What categories of expense from the state of Nebraska would you recommend cuts?

DUSTIN ANTONELLO: Sure. Well, I don't even know if I would say the state in Nebraska. I would say it's more on the local level. I mean we-- we continue to find that political subdivisions, they're increasing their budgets by 5 per-- 5 to 6 percent a year. They're not lowering their levy limit, even if they receive a few-- a huge windfall in property tax from revaluations or they receive additional state aid. And it's just

a-- a-- a huge struggle to-- to get them to-- to reduce their spending.

McCOLLISTER: So your primary angst is primarily with Lincoln Public Schools?

DUSTIN ANTONELLO: Not just Lincoln Public Schools. I mean we-- we've seen that the city of Lincoln as well has mostly kept their levy the same. Or what they'll say is, you know, we kept our levy the same but we got this huge chunk of change from property revaluation. So you're actually spending more property taxes. You're just--your levy's not going up.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Senator Friesen, I think you wanted to ask,--

FRIESEN: Thank you, Chairman Linehan.

LINEHAN: --then Senator Groene.

FRIESEN: I do. First, I just want to let you know that the surcharge on the income tax will not bother me one bit. OK? So you made the comment that Lincoln and-- and the sales tax. And so do you think residents of those counties pay more than average sales tax compared to the rest of the state per capita?

DUSTIN ANTONELLO: Per capita?

FRIESEN: Well, I mean you're-- you're-- you're saying that you collect more. Do they spend more to collect that or where does that money come from?

DUSTIN ANTONELLO: You know, I would say just because of the-- of the number of businesses that are in-- in Lincoln and Omaha and the number of services that are-- that are provided there that, you know, customers and residents there probably are more likely to-- to spend sales tax.

FRIESEN: So when Lincoln is bragging that 30 percent of their revenue in sales tax comes from out of the city limits, that's not true?

DUSTIN ANTONELLO: I mean it is true to a degree, yes.

FRIESEN: OK. So that sales tax revenue then, that 30 percent, is coming from who?

DUSTIN ANTONELLO: It is coming from out-of-staters, yes.

FRIESEN: Oh, OK. Just--

DUSTIN ANTONELLO: I'm sorry, out-of--

FRIESEN: --just so we--

DUSTIN ANTONELLO: --out-of-towners.

FRIESEN: --just so we're clear on that, I guess. So I recently received an e-mail from a citizen. I think they were from Omaha but it could have come from Lincoln. But it-- it demanded that every school fund its own school system with local revenue. Do you agree with that statement?

DUSTIN ANTONELLO: No, I don't agree with that. I think, you know, income taxes on the state level.

FRIESEN: So some schools should fund all of their education with local spending but some shouldn't?

DUSTIN ANTONELLO: I don't-- you know, I understand that there are many issues with the TEEOSA formula--

FRIESEN: I don't know if anybody understands yet. I'm not-- I'm not hearing that today. Some schools are funding it with local funding; some are not.

DUSTIN ANTONELLO: Uh-huh.

FRIESEN: Sales taxes play a big part in that. Don't we all pay sales tax based on our ability to buy things? I guess I don't have any money I can't buy things.

DUSTIN ANTONELLO: Yes, we do all pay sales taxes. And-- and, you know, I-- I understand the argument. I just know that, you know, these sales tax increases, because not only will you be increasing the overall sales tax to 6 percent but then you're taking away exemptions and adding new sales tax on services. And I just see that as being a double-whammy for a lot of businesses.

FRIESEN: Didn't your organization just support a quarter-cent sales tax increase for Lincoln?

DUSTIN ANTONELLO: Yes, we did. And the reason that we did that is because our streets are in dire straits. And, unfortunately, -

FRIESEN: And you needed people from outside the city limits to help pay for it.

DUSTIN ANTONELLO: Well, that was one of the arguments, because they-- the drivers in Lincoln are--

FRIESEN: Thank you.

DUSTIN ANTONELLO: --some of them are out of state.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Curt and I think alike. That's what my questioning was. But isn't that a tax shift? City of Lincoln says we can tax shift it to all these wonderful \$12,000 a year senators who have to come down here and eat at your restaurants. And when we go to the state championships and go to the basketball games and football games, we come down here and fund more than 30 percent, I would think it would be. And all the kids that come from rural Nebraska, go to the University of Nebraska and go out at night, spend some money, are they consider residents now? Probably. No. That's a tax shift. Lincoln's doing it, but you don't want us to do it.

DUSTIN ANTONELLO: Well, I think, you know, with the sales, the quarter-cent sales tax increase is a-- is a total-- totally different argument in terms of, you know, the way that that is being handled is we feel that because the streets are being used by people across Nebraska and it's-- there's a huge financial need for more funding to go to streets that it was worth it as long as we had some safeguards. So I mean impact fees are having a big--

GROENE: So would you rather us not come and drive your streets?

DUSTIN ANTONELLO: No, of course we would.

GROENE: I can drive past you and go to Omaha.

DUSTIN ANTONELLO: No, of course we--

GROENE: I could stay in Kearney and do my shopping. Would you rather us do that?

DUSTIN ANTONELLO: No. But I think allowing people, I mean this, the sales tax gives some people a share in providing for the road repair that we need and makes sure it extends to all users. So it's not just people who come in from, you know, out of-- out of town to go to Nebraska games. It's also commuters who are coming in from Omaha and--

GROENE: Well, I mean,--

DUSTIN ANTONELLO: --vice versa.

GROENE: --my concern is I think Lincoln has \$180-some, \$170 million of property tax or something like that, or total funding maybe with sales tax. Aren't you concerned that-- that the number one, after police and public safety, maybe fixing potholes, with that first \$178 million would be basic government instead of bike trails and arts in the park and--

DUSTIN ANTONELLO: Well, we--

GROENE: Wouldn't that be something your organization would ask them few questions?

DUSTIN ANTONELLO: We completely agree with that and we always, I mean, we were just down at city council this Monday, you know, opposing the bike plan because we were very concerned with how much it was going to cost. And, yeah, we have our priorities and we sometimes think the priorities at city council and in the city in general are out of whack.

GROENE: You're a good organization.

LINEHAN: OK.

GROENE: But you're a homeowner like everybody else.

LINEHAN: Senator--

GROENE: You want somebody else [INAUDIBLE].

LINEHAN: Thank you, Senator Groene. Did you have something, Senator Kolterman? Over here?

FRIESEN: Thank you, Chair. Thank you, Chairman Linehan.

LINEHAN: Senator Friesen.

FRIESEN: So you recognize that there's a tax problem and we should be cutting.

DUSTIN ANTONELLO: Yes.

FRIESEN: So, again, the hypocrisy. I mean you advocate for a quarter-cent sales tax increase and you didn't ask them to cut anything.

DUSTIN ANTONELLO: Well, I mean the Public Works Department has told us that they just do not have any revenue in order to fix--

FRIESEN: All right, so--

DUSTIN ANTONELLO: --the existing problem.

FRIESEN: So in our school funding, where are we supposed to cut? If we're not going to find anything to solve the property tax problem, you're saying to cut. But yet your organization doesn't ask--

DUSTIN ANTONELLO: Uh-huh.

FRIESEN: --the city to cut.

DUSTIN ANTONELLO: Well, I think the important distinction here is that we're supporting a vote of the people. We're not saying, we're not getting fully behind this going into effect. We're saying it should be put toward the voters and they should be able to decide themselves whether they think the streets are so bad that we need, well, we're willing to pay a little bit extra in order to have safer streets.

FRIESEN: But they shouldn't cut anywheres else; they just add more revenue.

DUSTIN ANTONELLO: Well, we've been-- we've been advocating for a very, very long time for them to cut wasteful spending and--

FRIESEN: You know then--

DUSTIN ANTONELLO: --it's been a very uphill battle.

FRIESEN: --then I would-- I would think, you know, if you wouldn't have supported the quarter-cent sales tax, they would have had to take it from somewheres else and we wouldn't have tax increases.

DUSTIN ANTONELLO: Well, it's not always that simple. I mean there's money earmarked for streets.

FRIESEN: It's not that simple. Thank you.

LINEHAN: Thank you, Senator Friesen. I think maybe where you got off track here is your whole-- your whole sales tax is also-- I don't know about the actual population, but 60, I do know that 66 percent of the school-age children in this state live in those three counties.

DUSTIN ANTONELLO: Uh-huh.

LINEHAN: So I would guess, pretty representative of the population. So I would-- it makes sense that there's a lot of-- it's also, and I think what you're hearing from the senators, is those three counties all get the lion's share of the TEEOSA aid, so-- when we've got a whole bunch of schools that get no equalization aid.

DUSTIN ANTONELLO: Uh-huh.

LINEHAN: So that's-- I think that's where we kind of went off track here. But thank you very much for being here.

McCOLLISTER: One more.

LINEHAN: Senator McCollister.

McCOLLISTER: Yeah. Thanks again for being here, but I share some of Senator Friesen's frustration. We've had a host of people come in here and talk about not doing anything with LB314. It's a tax increase in order to help finance property tax relief. But yet nobody comes in here when they're opposed to the bill with ideas how to do it. Yeah, I understand cutting expense, but we haven't. It's been difficult because of state budget's been real tight. Our Governor has been pretty effective in-- in holding the budget in line. So I'm just venting some--

DUSTIN ANTONELLO: Yeah. I understand.

McCOLLISTER: --some of the same frustration.

DUSTIN ANTONELLO: And we agree.

McCOLLISTER: Thank you.

DUSTIN ANTONELLO: We realize property tax is levied at the local level, and we try very hard to make sure that property taxes are spent appropriately by the political subdivisions. And we, every time, we're involved, very involved in the budget process for LPS and the county and the city. And we try every year to get them to cut spending and, unfortunately, it doesn't always work out the way we like.

McCOLLISTER: Thank you.

LINEHAN: Thank you for being here and--

GROENE: Taking abuse.

LINEHAN: --this is proof you don't want to be at the end. But thanks. Opponent. Are we [INAUDIBLE] opponent? How many more want to testify on this bill? OK, we're getting there, so we'll just keep driving through.

MARK KRAUS: I'd say it's good evening at this point. Chairperson Linehan and respected members of the Revenue Committee, my name is Mark Kraus, spelled M-a-r-k K-r-a-u-s, and I'm a co-owner and

president of Lost Way Brewery in Holdrege, Nebraska, as well as secretary of the Nebraska Craft Brewers Guild. I am testifying in opposition to both LB314 and 4-- and LB497, and I ask that my testimony be included the hearing record for each bill. Growing up I can't imagine a time where I would have said I'd be the president of anything, let alone a brewery. I hated beer the first time I tried it, and I can assure you I had no idea where Holdrege was. I moved to Nebraska with my wife, who is the general manager of the taproom at Lost Way, and newborn daughter looking for a better life for my family. We were leaving Pomona, California, in east L.A., where I landed after seven years of active duty in the United States Marine Corps. By this point in my life I had found enjoyment in finely crafted ales and lagers and had even started home brewing a few years prior while on recruiting duty in Detroit, Michigan, which I call my first home. We moved to Holdrege after my sister and brother-in-law moved from Michigan to work at BD Medical, with the intent of opening a brewery and taproom with them. At the time of my first draft of the business plan, there were only 32 breweries in the state with a majority in Omaha and Lincoln. Now we continue to see greater Nebraska getting a larger share of the fun and Lost Way Brewery has been proud to be a part of that growth. Starting a business, in general, is a challenge; doing so in such a regulated environment as alcohol production and sales in a state

and town you're not from may seem daunting. As a Marine, I looked at that challenge as excitement, as did every member of my team. We couldn't have picked a better state and town to nurture our idea and work with our success. As planning the brewery commenced, LB1105 was passed. It was a huge reassurance to us that the industry in the state would continue to grow and that our representatives and business partners wanted to see that occur. There was a small hiccup in the road days after we purchased our distressed creamery. When LB632 was introduced, it looked to threaten our entire business model. However, we were reaffirmed that our government officials could hear the voice of their constituency and they wanted to see the growth of their small manufacturing and retail businesses across urban and rural Nebraska. We continue to see the opportunity for economic development in our own community, and our businesses will soon be recognized as one of two Phelps County economic development corporation businesses of the year. We take our commitment to our mission statement of being a family friendly and educational environment very seriously. We understand the risk of overconsumption. And all of our servers are eTIPS certified and fully empowered to ensure someone's not overserved. Traveling the world as a Marine, I've seen numerous cultures and the way they interact with various alcoholic beverages. I would like to think that we have created an experience where finely crafted

beer can be enjoyed responsibly while netting the positive effects of community and economic development through partner businesses and events occurring in our community. We've actually seen two businesses come in creation because of us: a food truck as well as a crafting event that occurs monthly at the brewery. In closing, members of the committee, I tell you all this because any increase in excise tax or other taxes on my business will harm or kill my growth and will impact far more than just my family. I can assure you any increase in our already premium-priced product will result in lower volume of sales and having to lay off the three jobs we've created in our community of 5,500. I've put everything I've saved from the Marine Corps and running the [INAUDIBLE] numbers, anticipated decreases in volume sold. [INAUDIBLE] increased impacts my bottom line to the tune of losing everything and putting my family on the streets. Nebraska may not be for everyone, but I can assure you, if you allow our industry to grow and flourish, you'll reap far greater rewards and greater tax revenues from the new jobs, property development,--

LINEHAN: Sir.

MARK KRAUS: --increased sales. Thank you and--

LINEHAN: Thank you very much.

MARK KRAUS: --and I'm available for any questions.

LINEHAN: Thank you for your service. I'm partial to the Marines.
Do we have any questions?

MARK KRAUS: We are the best.

LINEHAN: So I've heard. Thank you very much for being here.
Appreciate it. Next opponent. Thank you.

DELRAE HIRSCHMAN: Good afternoon. My name is Delrae Hirschman,
D-e-l-r-a-e H-i-r-s-c-h-m-a-n. I am here representing over a
thousand companies and their employees who are members of the
Home Builders of Lincoln, Metro Omaha Home Builders Association,
and the Remodelers Council of Lincoln. In 2003 a bill was passed
to tax remodeling and repair services. The challenges of writing
regulations, enforcing them, and making them understandable and
workable for an industry that had never dealt with the issues of
collecting sales tax was an absolute nightmare for all concerned
and was repealed in 2006. During those three years many small
contractors chose not to do this work or went out of business
because they could not cope with these challenges and the fear
of being audited. Our members who were audited paid tens of
thousands of dollars in fines and-- excuse me, in fines because
most of all the small contractors and subcontractors who worked
for them did not understand how to write their invoices to list

sales tax separately. In that case, the general contractor was responsible for paying that sales tax because they could not prove that it had been paid. We now have a severe labor shortage in the construction industry and the increased costs of bookkeeping, accounting, and the stress of compliance with these taxes will only escalate the problem. The biggest challenge in the past law was distinguishing between new construction labor and remodeling repair and maintenance labor. An addition was considered new but connecting systems, such as plumbing, electrical, HVAC systems, the tying into the existing roof, siding, etcetera, was not. How do you keep track of these things on a job site and charge accordingly? The electrician is not going to keep track of how many feet are in the new addition and how many feet are in the old. How much time it takes to do that. Registered contractors who are attempting to comply with these regulations will be competing with house flippers who do their own work and fly-by-night operations who are off the radar and will not collect these taxes. Existing homes in our established neighborhoods will bear the brunt of these taxes, Homeowners trying to maintain, update, and repair these homes to increase the efficiency, make them more sustainable, to protect their character and the historical value, and to prevent deterioration and blight already face many challenges and expenses: testing for lead, asbestos, and other substances; the mitigation

involved, if that's necessary, add great expense to the project. Adding sales taxes to all these expenses mean these homes are no longer affordable and possible for the limited income of these homeowners. Property tax relief for these homeowners will be minimal compared to the added expense. A 1,400 square-foot house built in 1967, valued at 100--

LINEHAN: We need-- somebody needs to ask you a question--

DELRAE HIRSCHMAN: Oh, I'm sorry.

LINEHAN: --because your red light is on. Hopefully somebody will. I'll just let you finish your point five here. Is that what you wanted?

DELRAE HIRSCHMAN: Yes. Yes.

LINEHAN: OK. Just finish that point five.

DELRAE HIRSCHMAN: Valued at \$150,000 pays approximately \$3,000 in Lancaster County. To replace the windows for energy efficiency at a cost of \$12,000 would now pay an extra \$720. How much relief will they receive? More than likely their house will-- their value will increase because they have improved it.

LINEHAN: Well, OK. OK. I do have empathy. I'm sorry. Is there anybody else have questions? Because I get some e-mails on this.

It seems to me when they did this in 2003 they just were very lax in deciding what was what, right?

DELRAE HIRSCHMAN: I was on the committee that met with the Department of Revenue.

LINEHAN: Uh-huh.

DELRAE HIRSCHMAN: We met at least ten different times trying to work through how this could be workable. It-- it was a nightmare. They didn't understand, the contractors didn't understand.

LINEHAN: OK. So part of the problem was just implementation and not having good directions from the Department of Revenue, which scared everybody and then they just-- so I get that. It's just, I don't know, it seems like, to me, it seems like when I read the e-mails it sounded like just a lack of follow-through at the Department of Revenue to try-- and I'm not picking on Department of Revenue. I don't even know who was there in 2003, but the lack of trying to kind of get to what we're trying--

DELRAE HIRSCHMAN: Oh, they-- they held classes for months for all of the contractors to try and explain how to write this and how to-- how to implement it. It was--

LINEHAN: So was it, was it not written well?

DELRAE HIRSCHMAN: Well, like I said, when you've got an electrician who's stringing wire from an existing electrical box through to a new addition, how do you figure out how much to tax and how much not to tax?

LINEHAN: OK.

DELRAE HIRSCHMAN: You-- you have a plumber who's putting new plumbing in a new addition but he has to connect to an old system.

LINEHAN: Well, I don't know. OK. I don't want to-- yes, Senator Kolterman.

KOLTERMAN: I-- I had con-- I had contractors that were in that mess but they weren't necessarily home builders. Even land improvement contractors got caught up in that whole fiasco, roofers. I mean every classification had their own and it was a nightmare.

DELRAE HIRSCHMAN: It was.

KOLTERMAN: I would agree with that.

DELRAE HIRSCHMAN: Yeah.

LINEHAN: OK. Thank you, Senator Kolterman. Other questions from the committee? All right. Thank you.

DELRAE HIRSCHMAN: Thank you very much.

LINEHAN: Uh-huh. Hi.

HERB REESE: Good evening. My name is Herb Reese, Herb, H-e-r-b R-e-e-s-e. I'm with the Home Builders Association, MOBA, and the Home Remodelers Council of Lincoln. And I've been in-- in an industry for 43 years and I've been in my own business for 34 years. And, yes, I was caught up in the whole 2-- 2-- LB203 tax part of the tax bill back then and I get to just explain to you how this worked. When we would do an addition on somebody's house and we would sit there and we'd do it on the back of a patio and the patio door's there, if you left the door you were not taxed on that part of a 12 by 12 addition. But if I tore out that patio door and opened it all up, they would say that would be all taxable because I'm taking a new part in an old, then putting together. And the Revenue Service would say we'd have to tax that. And so then you'd have people say, well, then I won't do that. I'll just leave the patio door and come back later and tear out the wall after we're all done. And then we'd do the job again. So you're setting up another job and getting in there and doing this job. It's very difficult to try to sit there and break new to old in trying to get the plumber and everybody in there to do that in our-- and I'm a small business guy so I have eight employees. A lot of our subcontractors I work with may

have three or four employees and they're just going to give me a price of material and labor. That's all they'll give me on a job. And I'll guarantee a job for a homeowner that I will get in there and I'll do the job properly for them and I'll get it done for the amount I do it. But if I have sales tax on there it's a, well, you know, then I have to add sales tax at the end of the job to figure out where my new and old go. So it's a very difficult process in trying to put sales tax on to the labor part of it. And that's all I have, time.

LINEHAN: OK. Thank you very much for being here. Questions from the committee? Seeing none, thank you very much.

HERB REESE: You bet.

AMY WIMER: [INAUDIBLE] I'm too short for this. Thank you, Madam Chair and all the committee members. My name is Amy Wimer and that is spelled A-m-y W-i-m-e-r, and I am here on behalf of the Libertarian Party of Nebraska to testify against LB314. This bill raises taxes across the board instead of identifying ways to reduce spending and increasing efficiencies in government and government programs. Taxes are a burden to everyone, as you can see by the large number of testifiers that we've had, including ones that have come to testify "propo"-- on the proponent side saying that it will hurt certain businesses. Some groups are

here to propose omitting certain parts of the tax increases, but the Libertarian Party of Nebraska stands for all Nebraskans. We are taxed heavily in our state, and time and time again citizens have cried out for relief. Unfortunately, they have no real voice here because businesses are hard at work right now trying to pay for these taxes and the tax increases that we've had over the last, you know, several decades actually. Too often special interests have leaned on the so-called rich, which right now are the farmers, to pay for things that they desire for themselves or for others. And now we have ran to that well so many times that we're down to pet groomers, Lyft drivers, dance instructors, and the alcohol and tobacco industries once again. And that's pretty much my testimony so I'm open to any questions, but I do have some solutions if you wanted to ask me that question.

LINEHAN: Thank you.

AMY WIMER: Uh-huh.

LINEHAN: Questions from the committee? Senator McCollister.

McCOLLISTER: I'll ask you that question.

AMY WIMER: OK. You know it is like the third rail of politics to touch education reform and we could actually be streamlining

education a lot better than what we do. Right now we're in kind of an eighteenth century type of education system with twenty-first century technology. I have had a lot of people who have done homeschooling completely on-line and have now graduated with doctorates. We could do this in smaller communities where you have one person house kids, you know, that is maybe a stay-at-home mom or a stay-at-home dad or a stay-at-home family, and be able to take these on-line courses through UNL. It would cost so much less than having an actual building, vice principal, principal, nurses on-- on hand and all that. Obviously, the special ed kids will need separate things that will help them. But how many times have we seen lately where people have hidden cameras in book bags, in hair pieces, and things like that and they have found that there are teachers abusing the special ed children. I'm not convinced that the public education system is the best for 100 percent of our-- our students here in Nebraska. I think that if we were to streamline it so that it is best for each individual person then we would have a lot better savings. And that's just one aspect of the major things that we spend on our budget. Another one would be inmate reform. We spend roughly 34-35 thousand per inmate and we're housing people for nonviolent issues, issues around nonviolent crimes. We could deregulate a lot of things. You've had all these brewers say that, you know, the minute we de-- deregulated, the brewery

system just caught fire. Well, how much revenue have we gained from all these regulations and tax decreases? We heard that, you know, well, what if we give you guys subsidies; would you be then for these tax increases? Well, those require tax increases. Stop offering those things. Nowhere has our budget decreased. And over time all of us have voted for spending increases, so it hasn't increased in a vacuum. It has been an involvement on all of shoulders and--

McCOLLISTER: Thank you.

AMY WIMER: --it's all of our shoulders that we need to wrack it back-- ratchet it back. Sorry.

McCOLLISTER: In the absence of Senator Groene, maybe you could pen him a letter with some of those ideas.

AMY WIMER: I'll sit down with anyone--

McCOLLISTER: Thank you.

AMY WIMER: --if you got the time.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee? Thank you very much.

AMY WIMER: They're afraid to ask any. I give the hard answers.

LINEHAN: And a little tired I think.

BEAU STARKEL: Wish I could stand at this point. My name's Beau Starkel. I'm with Thunderhead Brewing.

_____ : Spell it.

BEAU STARKEL: We oppose--

LINEHAN: Yeah.

BEAU STARKEL: B-e-a-u S-t-a-r-k-e-l. I oppose both bills. I partnered with Thunderhead a few years ago out of Kearney, Nebraska. We are in the midst of working on our fourth buildout. We've put \$150,000 in Axtell, Nebraska; \$100,000 we're getting ready to put in West Point. I just announced a downtown Omaha location. We're going to invest \$100,000 there. In Lincoln, if and when it happens, that's gonna be an \$800,000 buildout all in the brewing business, just Thunderhead Brewing. I do have a few alternatives, but we're growing, we're hiring people. Our employment's probably quadrupled in three years. And clearly this tax would have an impact.

LINEHAN: Thank you. Are there questions from the committee? Yes, Senator Crawford.

CRAWFORD: Thank-- thank you, Madam Chair. And thank you for being here. You said you had suggestions?

BEAU STARKEL: Yes.

CRAWFORD: Do you want to--

BEAU STARKEL: Yes.

CRAWFORD: --illuminate one of those?

BEAU STARKEL: A few people have commented targeting outside residents, if we ran this place more like a business. We have an interstate that I think can provide a lot of value, whether it's truckers' freight loads. I think there's pipelines proposed that could be interesting. I mean,--

CRAWFORD: Do you mean tolls on roads--

BEAU STARKEL: Tolls, absolutely.

CRAWFORD: --and taxes on pipelines?

BEAU STARKEL: Most states do that. You're not going to go north two or three hours or south two or three. You're going to cut straight through here still, even if it's minimal. A soda or candy tax, I know that was discussed earlier, a general food

tax. I think everyone here has consumed plenty. Think we could all consume less.

McCOLLISTER: Maybe too much.

BEAU STARKEL: I would-- I think we're one of the most overweight states in the Union.

LINEHAN: And make [INAUDIBLE] very unpopular. [LAUGHTER]

BEAU STARKEL: Well, alternatives. You said you have problems;--

CRAWFORD: Yeah.

BEAU STARKEL: --you have to fix them.

CRAWFORD: Yes, absolutely. Thank you.

BEAU STARKEL: We're paying taxes on three tiers.

LINEHAN: Thank you, Senator Crawford. Other questions? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. I think someone's getting tired.

LINEHAN: Yeah, I think we're all a little tired.

FRIESEN: Yes, you're right. But we have, again, you know, we've--
- I think we've-- the Department of Roads has looked at a toll

road on the interstate. And they determined that it wasn't feasible because we don't have enough traffic yet. But, well, maybe someday that'll change. Because I've seen states that they're also-- their lawmakers are reluctant to raise the toll and so--

BEAU STARKEL: Sure.

FRIESEN: --the road goes downhill and they sell the road to private industry, who's not afraid to raise the toll. But again, it-- you know and I, again, I applaud everyone for-- I love start-ups.

BEAU STARKEL: Yeah.

FRIESEN: I love you guys for doing what you're doing. You've created jobs. That's what we need.

BEAU STARKEL: Think we'll have 80 employees--

FRIESEN: Yes.

BEAU STARKEL: --by the end of this year.

FRIESEN: And I-- that's what we need more of, I agree. But we don't seem to be growing our way out of this tax problem. So, and again, you know you said let's do the sales tax on candy, so if there's a candy manufacturer in here, do-- do we hurt them?

BEAU STARKEL: Sure.

FRIESEN: Somehow we have to look for this compromise and so there doesn't seem to be a solution if no one is willing to pay a different tax. And I'm willing to cut spending.

BEAU STARKEL: Sure.

FRIESEN: And if you want to point to places, I can-- I can come up with at least a hundred to two hundred million dollars in cutting spending, but I think I'd run into just as much resistance there.

BEAU STARKEL: But we have to address it. I mean at some point you can't keep kicking the can down the road.

FRIESEN: That's what we've been doing for 40 years.

BEAU STARKEL: Right.

FRIESEN: And so what I think is-- would you agree to what you--

BEAU STARKEL: Rental cars, we could add taxes on rental cars. I mean that's all tourists.

FRIESEN: I think there's-- I think there might be a tax
[INAUDIBLE].

BEAU STARKEL: Oh, sure, there's already taxes.

McCOLLISTER: There is a tax on it.

BEAU STARKEL: But if we want to favor Nebraskans and tax people from outside of the state--

FRIESEN: Well, that's what tourism kind of was, the--

BEAU STARKEL: Sure.

FRIESEN: --tourism idea.

BEAU STARKEL: Sure.

FRIESEN: I mean that's new money. That's,--

BEAU STARKEL: Right.

FRIESEN: --you know? But again, I admit it-- it is not simple.

BEAU STARKEL: Yeah.

FRIESEN: And it's-- it is a strain. And yet agriculture is the number one industry and they've sustained a 250 percent tax increase--

BEAU STARKEL: Sure.

FRIESEN: --and lived through it and couldn't pass it on. But we're getting to the end of the rope, so I mean how long do we keep stringing it out?

BEAU STARKEL: How many states don't have taxes on food, grocery?

FRIESEN: I-- I'd propose a tax on food. I'm going to get pushback on that.

BEAU STARKEL: But everyone in here could consume 1 percent less food--

FRIESEN: Oh, I--

BEAU STARKEL: --to offset a 1 percent tax.

FRIESEN: I could probably go 5 percent less.

BEAU STARKEL: Point.

FRIESEN: Thank you.

LINEHAN: OK. Thank you. Senator-- oh, you don't get to leave yet. Senator Groene. [INAUDIBLE].

GROENE: I want to correct Senator Friesen. Beer is a necessity; candy isn't. [LAUGHTER]

BEAU STARKEL: I agree completely and I'm already paying taxes all along the way.

GROENE: And also, this bill doesn't-- doesn't come to the conclusion that spending is a problem. It throws a lot more money at education.

BEAU STARKEL: Sure.

GROENE: It does. Yeah.

BEAU STARKEL: And I would completely agree with that. I still can't figure out why we build such nice schools here. We can't build cheaper schools? They're solid block structures. Personally, I don't get it.

GROENE: Or, more importantly, why can't we use a 1960 building that [INAUDIBLE].

BEAU STARKEL: Look what Creighton did to their med center.

GROENE: Anyway, we don't want to get into that.

BEAU STARKEL: Departments.

GROENE: Anyway,--

BEAU STARKEL: Thanks.

GROENE: Thank you, sir.

LINEHAN: Wait a minute. Whoa, whoa, whoa. Did you have a question?

KOLTERMAN: No. I just didn't want to continue to badger the witness.

BEAU STARKEL: I'm OK with it.

GROENE: He's waited a long time for this.

LINEHAN: Give us a little-- we're doing pretty well here. We're going in a--

BEAU STARKEL: I've waited six hours.

LINEHAN: --long, long-- [LAUGHTER] Where did you grow up?

BEAU STARKEL: I grew up in Stanton, Nebraska.

LINEHAN: Stanton?

BEAU STARKEL: Yup. No handouts. Went to undergrad, grad school twice.

LINEHAN: In Lincoln?

BEAU STARKEL: Put a lot of money into Thunderhead. Yeah,--

LINEHAN: Yeah.

BEAU STARKEL: --Lincoln and Creighton. Now I teach at UNO and I plan to teach at Creighton and Lincoln this fall.

LINEHAN: OK. Teach what?

BEAU STARKEL: Finance, investments.

LINEHAN: Oh, very good.

BEAU STARKEL: I discuss a lot of the same things with the students.

LINEHAN: Thank you very much--

BEAU STARKEL: Yeah.

LINEHAN: --for being here, appreciate it.

BEAU STARKEL: Sure.

LINEHAN: Thank you. Hello.

NATHAN HOEFT: Hello. My name is Nathan Hoeft, N-a-t-h-a-n H-o-e-f-t, and I am the owner and brewer at First Street Brewing Company in Hastings. I am testifying in opposition to LB314 and LB497, and ask that this testimony be included in the hearing record for both LB314 and LB497. I am a transplant to Nebraska. I am originally born and raised in Orlando, Florida, and went to school in Nashville. I get that raised eyebrow a lot. Very proud

to say that it was meeting and marrying my beautiful wife, who is a Nebraska woman-- she's also my partner in business-- and that's what landed me in Hastings. We started First Street Brewing Company because I have always had a great love of beer. It's-- it's a-- it brings people together. It helps us build community. And for me, that was particularly important. I was a programmer when we first moved to Hastings and when I would talk about my work to my friends, most of their eyes would kind of glaze over, but talking about beer allowed me to connect and create opportunity for conversation. We found that to be true as we opened our brewery and we-- we try to concentrate on creating those moments in our taproom. Pardon me. Eight out of ten right now of our current employees are transplants as well. We've found that having a place like ours is a-- a great way to retain talent and young people in our community. I think our CVB director would agree that it has brought people into our community and we're starting to see businesses grow as well in Hastings, so that's a pretty powerful thing for us. We believe in providing an environment for all people to have a conversation over a beer. We believe in creating moments of connection, whether it's a quiet conversation in the corner, the entire taproom singing together, or a team of friends working on the answer to who's that guy in that movie that one time. We hosted an event last year. It was our first ever .5K run around

the block, which also led into the first street dance we've had in Hastings in 25 years. So we believe in creating community and we believe in doing it responsibly-- pardon me, responsibly. We have a social mission at First Street made up of three simple words. It's, be first class. And the idea is that it reminds us every day to be the best version of ourselves at every opportunity. We try to remind our patrons of that as well. Each one of our employees is certified and are very capable in recognizing attempts at underage drinking and also overconsumption. We do our best to take care of our neighbors and make sure everybody is in good condition. We are still a fledgling business. We're going into our third year. We just invested a significant chunk of money into our business to acquire a canning line and to increase our reach into the rest of Nebraska. But that being the case, our margins are-- are very tight and our growing pains are very real. I'm sorry. Yeah.

LINEHAN: That's OK, but I do have to-- any questions from the committee? So Hastings. Was your wife from Hastings?

NATHAN HOEFT: She's originally from Nelson, 40 minutes south of there,--

LINEHAN: OK. All right. Hastings is a nice town.

NATHAN HOEFT: --and we just kind of fell in love with the city there.

LINEHAN: Yeah, college town.

NATHAN HOEFT: Yep.

LINEHAN: OK. Thank you very much for being here.

NATHAN HOEFT: Yeah.

SARAH CURRY: Sarah Curry with the Platte Institute, S-a-r-a-h C-u-r-r-y. And happy Valentine's Day, everyone.

_____ : Yeah.

LINEHAN: Don't bring it up.

SARAH CURRY: The Platte Institute supports property tax reform, the collection of Internet sales tax, and expansion of the sales tax base to purchases which are not business inputs. But we do not believe it is wise to fund reforms by increasing other tax rates. Increasing tax rates is a fund-- as a funding mechanism could be especially harmful without including the proper safeguards to assure lasting reforms. Just as high property tax rates are harming Nebraska taxpayers, LB314's increase in the cigarette tax, alcohol taxes, and the income surtax, and an increase in the sales tax rate are all detrimental to our

state's revenue projections and economic growth. Cigarette taxes are especially known to be a very unreliable revenue source. In the last decade 85 percent of cigarette excise tax increases were missed on the revenue projections. There are 23 separate instances where there's state data to show how far states have missed projections, and only 4 of those experienced more revenue while the remaining experienced less. Many national organizations also agree with this. Even the National Conference of State Legislatures specifically states that cigarette taxes are not a stable source of revenue. This means depending on this revenue source to pay for local property taxes will likely result in the state coming up short. Accordingly,-- or, excuse me. According to research by the Tax Foundation, a high income surtax is poor tax policy because it is narrow and a high tax on a highly mobile group of taxpayers who earn less in bad economic times. Enacting such a tax makes state tax revenue also more volatile and unpredictable. In addition, an income surtax would put additional pressures on the small businesses in Nebraska that file through the individual income tax. The bill's overall income tax increases will be extremely high for those small businesses that file as shareholders of S corps and LLCs in Nebraska, not only because of the surtax but also because of the elimination of the exemption for earnings in other states. This may cause some of those shareholders to leave for a lower taxed

environment. Nebraska has an increasingly based service economy and we appreciate the expansion to those services to update our sales tax code. This bill directs the new revenues towards the Property Tax Credit Relief Fund. And while that choice will subsidize property tax bills, we are concerned that it does not have an appropriate mechanism to assure that property tax entities will meaningfully reduce the property tax rates. The Property Tax Credit Relief Fund was created in 2007 at a cost of \$105 million dollars. That fund's amount has more than doubled since it was created, and yet property taxes are now higher than they have been in decades. It's clear the Relief Fund policy is not working and does not create lasting reform, only temporary relief. For this reason we do not believe that adding additional revenues to the fund to be distributed to all property taxing subdivisions will result in sustainable property tax reform. In addition, surveys conducted by the Platte Institute-- and I'm done. I'll respect that.

LINEHAN: Thank you, Ms. Curry. Do we have questions from the committee? Senator McCollister.

McCOLLISTER: Yeah. Thank you, Madam Chair.

SARAH CURRY: Excuse me.

McCOLLISTER: If not the Property Tax Relief Fund,--

SARAH CURRY: Uh-huh.

McCOLLISTER: --Mrs. Curry, what mechanism would you-- would you use to give property tax relief?

SARAH CURRY: Well, I think LB10-- Senator Linehan's LB103 is a good start. I do think there needs to be a change on the reliance of the property tax at the local level. I've been looking at local spending, thinking about if-- if they don't spend it why do they have to tax it? And it's interesting because I can't find how much we spend on municipal golf courses or water parks or greenways or rails-to-trails or whatever you want to call them. There's all of these things that are not functions of government that are necessary that we're spending money on and it does drive up the property tax rate. I'm sure there are things the schools are spending money on that they don't have to spend money on because it's not directly tied to the instruction of children. And I can't find it because it's very difficult to look through these local budgets. And I think that's really where the problem lies, is figuring out where we're spending the money at the local level and then figuring out is that really a priority. And then maybe pulling back on those property taxes. And if they want to spend it, let's not make everyone, the farmers and, you know, spend it. Let's do a fee-for-service maybe model.

McCOLLISTER: As a think tank, you perhaps could help us find that.

SARAH CURRY: I have some ideas. I focus in research and this is just an idea I'm throwing out there because other people are. And Senator Linehan, Senator Groene know much more about this than I do. But just a thought that I had is that right now all of the school districts, they independently pay the benefits for their teachers. And I know that if you have a larger company-- my husband works at a hospital and so the insurance benefits for him are much less per employee than they would be at a small independent business. And so I don't know if taking those benefits away from the local stool-- school districts and pooling them with the state would save some these local school districts money. And maybe you could offset that with a lowering of the school district levy. And I have not researched that in detail so I don't know what the cost of that would be. That's just an idea. I do think that we have economies of scale and we need to look at some of those saving opportunities instead of just throwing money at the same old problem and expecting it to fix itself.

McCOLLISTER: Good plan. Thank you.

SARAH CURRY: You're welcome.

LINEHAN: Thank you, Senator McCollister. Senator Groene beat you
[INAUDIBLE].

FRIESEN: It's all right.

GROENE: Thank you, Chairman. I'm not going to thank you anymore.
It wastes time. But anyway, [LAUGHTER] I did an LR my second
year down here on that very issue. And you talk about rabid
protection of what they have. I can share the results of that.
We did one on just that, include them in--

SARAH CURRY: Oh, I didn't say that would be an easy--

GROENE: --include--

SARAH CURRY: --thing to do. I'm just saying that's an idea.

GROENE: --include-- include them into the state. And reality is
the cost comparison, there wasn't much savings. Talking about--

LINEHAN: Because they're all in the same plan.

GROENE: But anyway, I can-- we can go into that later. Cigarette
smokers, have you got any evidence? They talk about the
healthcare, but detrimentally, that behavior, isn't detrimental
to the economy. The most of them I know that smoke, work. It
doesn't break up families, doesn't make bad parents, they're
part of the community. They build basketball arenas. I'm just

curious what the reason would be to tax 13 percent of the people at high rate who are actually very productive citizens.

SARAH CURRY: I agree with you. You know the cigarette tax would be a completely different discussion if we took all the revenue that we collected for the cigarette tax and put it towards lung cancer research or some sort of health aspect for those people. That's not what we're doing. We're using that to pay for things in the General Fund. And so I don't think it's a good idea to raise cigarette taxes. It's a very unreliable revenue source. It hurts our low-income populations and also it's going to increase our crime rates because we're going to have smuggling coming in from Missouri that has very, very low cigarette tax rates.

GROENE: Fine. Thank you.

SARAH CURRY: You're welcome.

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So you're saying taxing a minority of people to solve the problem is not the right way to do it.

SARAH CURRY: No, I don't. I don't think so.

FRIESEN: What-- what percentage of the tax returns of Nebraska would be ag, farmer?

SARAH CURRY: I don't know. I-- MJ probably knows. I don't know that.

FRIESEN: It's kind of a minority right now paying most of the bill for education. Would it-- would it be possible, taking, you know, school costs are 80 percent salaries. Could the state, going a little further with your insurance, then just should the state take over the salaries and-- ?

SARAH CURRY: Yes.

FRIESEN: Right now school boards, I mean, I think are ill-equipped to negotiate salaries with CIR and all the issues that-- would the state be in a better position to help hold down some costs if they took over salaries and health benefits of--

SARAH CURRY: I have looked into that. I don't know how it would affect Nebraska. I'll just tell you, coming from doing budget analysis in North Carolina, they fund their teacher salaries. And then their-- so the schools are paid for primarily through the state and the local property taxes do supplements to the teacher salary. So if you live in, say, a big city and you want to offer that teacher a supplement, that comes out of property

taxes and they do local bonding for school construction. But the salaries and the benefits and the cost of-- the core cost of education comes from the state and they have very low property taxes. That-- they were structured like Nebraska and the Great Depression forced that change because people couldn't afford their property taxes. And so the state had to take it over so they could pay for schools. I think Nebraska was lucky during the Great Depression and they didn't have that same impact. So I don't think that's a bad way to look at it or to explore. But to Senator Groene's point, I know that's going to be a very, very difficult row to hoe and you've got a lot of opposition to that.

FRIESEN: We've got of tough rows here, don't we?

SARAH CURRY: Yeah, but I don't think that's a bad way to look at it because, in my personal opinion, having a child that's going to be entering the school system soon, local control is providing my child with instruction and giving him or her, you know, math, science, all of those things. The salaries, the benefits, the insurance, the retirement, that's not what's important in the classroom to my child or to me as the parent. And so I do think that when you start looking at what is local control and how do we define that, and I'm sure I made a lot of people mad by saying that.

FRIESEN: Would you say that that is already not in local control, so to speak? It's on autopilot.

SARAH CURRY: I would agree. I don't think that local control is, you know, teacher salaries or their benefit packages. I think local control is the, you know, delivery of instruction to the children. And so I don't think it's a bad thing to explore the state taking that over and I don't know the finances on that to see if it's even worth it. Senator Groene knows more than I do on that.

FRIESEN: Thank you.

SARAH CURRY: You're welcome.

LINEHAN: Thank you, Senator Friesen. Other-- ? I think we're done.

SARAH CURRY: Thank you.

LINEHAN: Thank you for being here. Hi.

JOHN LINDSAY: Senator Linehan, members of the committee, my name is John Lindsay, J-o-h-n L-i-n-d-s-a-y, appearing on behalf of the Nebraska Beverage Association. The members of the Nebraska Beverage Association include distributors of nonalcoholic beverages and include distributors of items such as Coca-Cola,

Pepsi, Dr. Pepper, Snapple. The Nebraska Beverage Association objection to LB314 is founded in Section 34 [SIC] which would impose sales tax on soft drinks, candy, bottled water. The concern is that it-- it identifies our products and takes them out of the definition of food and identifies only those products to take outside of the definition of food. Food is, in the tax code, is a very, very broad-based definition and very easy to follow and I think good tax policy, and that is that it is items that are-- "that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value." When we start excluding things and picking which foods should be taxed and which we shouldn't, I think we go down a-- a slope that we may sometime in the future wish we hadn't gone down. Second, I think the-- the issue soft drinks are excluded from, under this bill, soft drinks would be excluded from food, part of the problem is soft drinks is not-- is not defined. Other states have some difficulty and get some weird, weird sort of results when they do define them, same thing with candy. Example, in most states that impose a tax on or has a similar kind of language a Milky Way candy bar is not taxed, a Milky Way Midnight candy bar is taxed. And you go through a whole bunch of items like that and you just get some absurd results. You look into our products and you go into a convenience store and you'll see a whole bunch of coolers lined up there, everything from--

from Coke or Pepsi or Dr. Pepper down to the diet beverages to the bottled waters to the carbonated bottled water to the coffee drinks to the juice-based drinks to the-- and it goes on. Some may be included, some may not, depending on how much milk is in that coffee drink or-- or more how much sweetener, is it artificial or is it regular? It's-- it's not just a simple sort of change. It would require an awful lot of fleshing out. And as Kathy Siefken was testifying, seems like yesterday but was probably still today, as she pointed out it does cause a lot of confusion. We would urge that Section 34 [SIC] of the bill be deleted.

LINEHAN: Thank you. Questions for Mr. Lindsay? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So would you say it'd be a lot simpler if we just put a tax on everything and we wouldn't have to differentiate?

JOHN LINDSAY: Our objection is-- our objection is to the itemized or pulling out our products from the definition.

FRIESEN: Well, we wouldn't be pulling those out. We're just going to [INAUDIBLE].

JOHN LINDSAY: Our objection would go away. It, I'm sure, would bring other objections, but it would satisfy ours. [LAUGHTER]

FRIESEN: I can't imagine. But thank you.

LINEHAN: Senator Groene. Thank you, Senator Friesen.

GROENE: Yeah. So put 2 percent on everything.

JOHN LINDSAY: What's that?

GROENE: Put-- if we put 2 percent on every-- all-- all groceries, all food products.

JOHN LINDSAY: Like I say, that would-- that would handle our objections, but it would probably generate some opposition elsewhere.

GROENE: The Cattlemen will be right behind you, get in that chair.

JOHN LINDSAY: What's that?

GROENE: The Cattlemen will be right behind you to get in that chair about 2 percent on steak.

JOHN LINDSAY: Yeah.

GROENE: So anyway, but 2 percent, but these other states do it somehow. Missouri, Kansas, Colorado, and South Dakota, and Iowa differentiate candy and pop and soda.

JOHN LINDSAY: Uh-huh. I think it's-- I think 23 states do not exclude either, and I think 22 or 23 would have one or the other excluded from the definition of food. When you get into how those are actually defined or how it's applied, that's when you start getting some results that are kind of absurd. In a lot of cases it's the-- the policy reason for doing it is some question about is this particular food healthy or unhealthy. And you start getting into making decisions for people about what they should or should not be eating. And that's a path that starts getting--

GROENE: [INAUDIBLE].

JOHN LINDSAY: --[INAUDIBLE] you're talking about a high-fat cut of beef or, I mean, all sorts of decisions that could get-- get in there that [INAUDIBLE] necessarily is good policy to be making.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Are there other questions? Seeing none, thank you very much.

BRIAN PODWINSKI: Good evening. My name is Brian Podwinski. It's B-r-i-a-n, last name is P-o-d-w-i-n-s-k-i. I came to talk to you regarding both LB314 and LB497. I'm the president and co-founder

of Blue Blood Brewing Company here in Lincoln. We've been around since 2011 and the name Blue Blood comes from my past as a police officer here in Lincoln. I wanted to comment on a few things regarding that. The way we operate our business, we want to make sure we follow the letter of the law, and in the alcohol industry there's laws all over the place, from taxes to the way we can operate to the way we can run our business, the way the state and the feds want us to do so. So we want to make sure we follow that. We want people to enjoy our products responsibly. We want to make sure people are safe, whether that entails a ride home, whether that entails making sure people do not drink when they shouldn't, of course, not serving minors. You can go down the litany of or the list of items that we don't want to have happen at our-- at our place of business. But with that being said, we've still been able to grow to 45 employees at our location with our restaurant and our brewery. We have developed a property that was sitting vacant for 20 years here in Lincoln, bringing back Robber's Cave, create a spot for people to come, enjoy themselves, families, and really create a sense of community there. However, with excise taxes, if excise taxes increase that creates a very big burden on our industry and our company. Just to give it kind of a example of how excise taxes are today at 31 cents a gallon, it is actually the same cost for me to pay excise taxes in Missouri and Wisconsin and include the

cost of shipping that product to those distributors compared to just paying the excise tax here in Nebraska. Wisconsin, we pay 3 cents, their normal per gallon. Their normal excise tax is 6 cents but they give small producers a credit of 50 percent. And Missouri's excise tax is 6 cents per gallon. Those are the two I can comment on because we do pay those ourselves. Others, distributors pay the excise tax in Iowa-- Iowa, Illinois, and Kansas as well. So for us to be able to say that now, imagine what it would be like when we're-- if we're charged \$1.38 a gallon. It just does not work that way. We would have to pass the cost-- the-- the cost on. And our beer would be significantly more expensive here in Nebraska than it is in other states. And that, to me, is-- would definitely hurt our business. When I compare prices to-- in Nebraska to other states as it is now, ours are typically cheaper in terms of what our package costs here versus there. And if we see that increase here, my concern is, is it just going to be more people buying other products or not buying beer at all, which is going to turn around and translate into the fact that we will not have the sales here at home. And if you can't have the sales at home, it's very hard to succeed to other parts of the country, so.

LINEHAN: Thank you very much. Do we have questions? Thank you.

BRIAN PODWINSKI: Thanks.

VANESSA SILKE: Good evening.

LINEHAN: Good evening.

VANESSA SILKE: I'm Vanessa Silke, it's spelled V-a-n-e-s-s-a S-i-l-k-e. I'm an attorney with Baird Holm and I'm the attorney and lobbyist for the Nebraska Craft Brewers Guild. I've spoken with most of you about these bills and certainly other bills that relate to craft beer in the last few years. And with all the negativity, certainly I'm here to oppose LB314 and LB497, but I want to highlight some positive relationships that this Legislature has had with the craft beer industry. You heard from some of our 46 members today about the importance of the Legislature passing LB1105 just a few years ago. When you asked for solutions, Senator Friesen, that is a shining example of a solution the Legislature passed. It wasn't a tax increase. It was a state-based bill that allowed for the growth of the craft beer industry and guaranteed that our members could grow to up to five locations, which you heard from many of them they're at three and four in multiple cities. It guaranteed the regulatory controls that would be in place when they move beer between those locations or to the retail tier. It also created the Nebraska Craft Brewery Board which is administered by the Department of Ag. I highlighted specifically to Senator Crawford in our meeting that we have a forthcoming economic study,

economic impact study of the craft beer industry on Nebraska that's funded by the craft beer board. We expect to have that later this year and we think that's an important tool in illustrating exactly how the guild's members are a tax revenue solution in action. So as you point out, Senator Friesen, we're - we're in a pretty deep hole here and you guys have a very difficult task. It's going to take more than just growing out of it, but we certainly don't want to kill the growth that we have when we have it. And as you heard from many of my members, they have grown by leaps and bounds. I want to highlight one thing that's in your testimony from one of our members who had to leave. He couldn't stay. He was pulled back home, Caleb Pollard from Scratchtown in Ord. In his prefiled testimony, in one paragraph that's excellent testimony but I want to highlight, at Scratchtown in Ord they welcome customers from every state in the U.S., seven different countries. Over 60 percent of their customers travel to Ord from over 75 miles or further. That means dollars for Valley County that otherwise wouldn't be there. They've also tracked that a report recently published by the Valley County Economic Development Association tracked an increase of 166.67 increase in lodging taxes collected since Scratchtown opened because they draw so many people to their location. So with that, I know I'm running out of time. I want to be a resource for you and our 46 members to continue to work

with you on what works for Nebraska. They've invested millions here and they want to continue to do that with your help. So with that, think I'm about out.

LINEHAN: Thank you very much. Questions? Seeing none, thank you much.

VANESSA SILKE: OK.

JOE KOHOUT: Chairwoman Linehan and members of the Revenue Committee, my name is Joe Kohout, K-o-h-o-u-t. I'm a registered lobbyist, appearing today on behalf of our client, the Associated Beverage Distributors of Nebraska. We represent the 17 family, locally owned beer distributorships across the state of Nebraska. And I appear before you today in opposition to LB314. And, Madam Chair, I've asked that my comments be made part of the record on LB497 as well.

LINEHAN: Thank you.

JOE KOHOUT: LB314 would dramatically incre-- raise beer excise taxes from 31 cents per gallon or \$9.61 per barrel, to \$1.38 per gallon or \$42.78 per barrel-- an astonishing fourfold increase in the tax. Such a beer tax increase is incredibly regressive, ill-advised, unwise, and unfair. Already taxes on beer representative over 40 percent of the retail price of beer. This

is substantially higher than other products. On-- on average, beer drinkers currently pay the state roughly \$40.5 million per year in sales and excise taxes on the beer they drink. The beer excise tax is one of the most regressive taxes of Nebraska. Of America's more than 80 million beer drinkers, approximately 65 percent earn less than \$50,000 per year. The Citizens for Tax Justice and the Institute on Taxation and Economic Policies establish that people whose family incomes are in the bottom 20 percent pay a tax burden for beer excise taxes five times greater than people with family incomes in the top 20 percent. More recently, an analysis of the federal beer tax by Price Waters [SIC] Coopers found that households with the lowest incomes pay an amount of beer tax per \$1,000 of income that is nine times higher than that paid by households with the highest incomes. Simply put, increasing beer excise taxes makes the tax system more regressive and more unfair. As you've heard, an increase in the beer excise tax would be devastating for the industry. This tax increase would result in an average in \$6.35 increase in the price of a case of beer. It would make Nebraska's excise tax the highest in the country. Furthermore, the price of beer in Kansas would be more than 50 percent cheaper and the price of beer in Colorado would be 60 percent cheaper. This would encourage cross-border purchases and Nebraska would lose jobs in the brewing, distribution, and

retailing industries. With that, Madam Chair, I will wrap up my testimony. We would-- we would oppose the advancement of LB314. However, I do want to make one quick comment before I-- before I end and that is we did hear some conversation a little while ago during testimony about the potential of incentives and for local manufacturers versus out-of-state manufacturers. I have forwarded to committee counsel and to the res-- research analyst a case which is the preeminent case in an alcohol law at the moment. It's the Granholm case which was decided by the Supreme Court in 2005. I would note that-- that any attempt to try to create a bifurcated system that would somehow incentivize local manufacturers, to the detriment of out-of-state manufacturers, would-- could be problematic under that case, so I forwarded that to you for counsel review.

FRIESEN: Thank you. Any questions from the committee? Seeing none,--

JOE KOHOUT: Thank you.

FRIESEN: --thank you.

WILLIAM MUELLER: Senator Friesen, members of the committee, my name is William Mueller, M-u-e-l-l-e-r. I appear here today on behalf of the Nebraska State Bar Association lawyers and I am here opposing LB497, Senator Friesen's bill in this area. We are

opposing the provisions in Section 17 imposing a sales tax on nonbusiness legal services. To-- to be very clear, we are not opposing the-- the methodology employed here. We understand that from a sales tax standpoint you do not want to pyramid sales taxes. You-- you pyramid sales taxes when you impose them on a business and that business then incorporates those taxes into its ultimate price. We-- we do simply appear here opposing the imposition of a sales tax on services. The way that this particular provision is drafted, it would impose a tax on things like domestic relations matters, criminal matters, guardianship and conservatorships. And as much as I love lawyers, I think most people probably don't go to a lawyer because they're really wild about going to a lawyer but they're going to that lawyer to seek legal services in matters that they-- they need representation. We do believe that this could potentially become an access to justice issue where people simply do not have the means to hire a lawyer. They end up going into the system pro se, which is a-- a growing challenge, or they just don't seek representation. So I would ask that my testimony be made part of the record on LB497. Be happy to answer any questions the committee may have.

FRIESEN: Thank you. Any questions from the committee? May I ask just one?

WILLIAM MUELLER: You may.

FRIESEN: So at some point in some time when somebody couldn't afford a lawyer, if 5.5 percent was too much, you would lower your rates to make sure that they were served.

WILLIAM MUELLER: I would certainly yield to your counsel, but I - I think that you, as a provider, I don't think that you can absorb the sales taxes. I think that you have to charge those. Could you lower your rates to lower the ultimate fee? Of course you could.

FRIESEN: Thank you for your testimony.

WILLIAM MUELLER: Thank you.

FRIESEN: Just trying to go harass you a little bit.

GROENE: I got one.

FRIESEN: Senator Groene.

WILLIAM MUELLER: Thanks a lot, Senator Friesen.

GROENE: I agree with you, why tax the person who has to hire a lawyer? But you know what they do is tax farmers for what they need to make to living. How-- what about a \$10,000 a year fee on

a lawyer's license? Be equitable, wouldn't it? It's not related to how much money you make. It's just--

WILLIAM MUELLER: And I'm guessing that the bar would probably oppose that.

GROENE: Why? They do it farmers. It's not related to how much money you make. It's what you need to make a living.

WILLIAM MUELLER: As the senator knows, lawyers do pay-- pay property taxes as well.

GROENE: They pay income taxes as well.

WILLIAM MUELLER: And-- and we pay income taxes as well.

GROENE: Thank you.

WILLIAM MUELLER: Thank you.

FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Seeing none,--

WILLIAM MUELLER: Thank you.

FRIESEN: --thank you for your testimony. Welcome.

KATIE ZULKOSKI: Good evening, Chair-- Chairman Friesen, members of the committee. Thanks so much for allowing us all to testify

into the evening. Katie Zulkoski, Z-u-l-k-o-s-k-i, testifying on behalf of the Nebraska Veterinary Medical Association. The NVMA is opposed to putting tax-- sales taxes on veterinary services and this testimony would be both for LB314 and for LB497. The bills do, do that in two different ways. In LB314, in Section 23, it's-- it would be a tax on animal specialty services and then states that that includes pet-related services, veterinary services, and it even notes that it would be applied to specialty services performed on livestock. In LB497 it's laid out differently and just specifies that it would-- sales taxes would be included in pet related services in most of those in each of these bills it appears that careful thought was given to not putting tax on business-related services and-- and certainly in some instances pet-related services would not be business-related services, but in some instances and especially where we're talking about specialty services performed on livestock those could be business services. And trying to determine when it was and when it wasn't would create some extra work on that part. So for those reasons, we oppose both LB314 and LB347 [SIC] and I'd be happy to answer any questions.

FRIESEN: Thank you for your testimony. Any questions from the committee? Seeing none, any other opponents?

JUSTIN BRADY: Senator Friesen, members of the committee, my name is Justin Brady, J-u-s-t-i-n B-r-a-d-y. I appear before you today as the registered lobbyist for the Nebraska Liquor Wholesalers Association, which is really a coalition between Southern Glazer Wine and Spirits and Republic National Distributing. They're just 2 of the 29 liquor distributors in the state. They're opposed both to LB314 and to LB497. As you've heard from a number of people about the alcohol tax increase, not only, as you heard, it would take us to number one in the country in beer, it would also take us to number one in the country on wine and number nine on spirits. All those will have detrimental effects to the industry as far as where alcohol is purchased. I'm not saying that changes will happen on people's consumption but where they purchase it will. And I think when you look at, with 70-plus percent of our population living within an hour or so of the border, they have options to go somewhere else. And I would say that taxes like this would just encourage them to do that. I know you heard from a number of the craft brewers that talked about their investments and I think it's great what they've done across the state. Just give you some numbers: Republic National employs 220 employees. Although their main warehouse is in-- in-- just in La Vista, they have employees all across the state. They have a sales team that-- that travels and lives throughout the state. Southern has 115

employees. Both companies have invested tens of millions of dollars into their warehouses and their equipment and so they, too, are vested in Nebraska. And just a brief explanation on how the taxes are paid on wine and spirits, they come-- say something comes, like a Jack Daniels, from out of state and it arrives at the warehouse. It arrives. When it leaves their warehouse, the wholesalers are responsible for paying the tax to the Liquor Commission. Now granted, it's-- it's factored into the price that they just sold it to the retailer on, but they're the ones responsible for paying the tax when it leaves their warehouse. And so with that, I'll stop and see if there are any questions.

FRIESEN: Is there anybody in the entire state left in your industry that has not testified? [LAUGHTER]

JUSTIN BRADY: Yes. Johnson Brothers would-- asked me that I would also echo my comments for them because they had to leave. So now I think we might be covered.

FRIESEN: Thank you. Any questions from the committee? Seeing none.

JUSTIN BRADY: Thank you.

BRENNEN MILLER: Good evening, Chair Linehan, members of the Revenue Committee. My name is Brennen Miller, B-r-e-n-n-e-n M-i-l-l-e-r, appearing before you today as a registered lobbyist for our client, the Nebraska Golf Alliance, in opposition to LB314. The Nebraska life-- Nebraska Golf Alliance, excuse me, is the Nebraska Section of the PGA, just to clarify who we are. The NGA is a not-for-profit organization made up of approximately 245 PGA members and 24 apprentices who are dedicated to promoting the enjoyment and growth of the game of golf. The Nebraska Section of the PGA encompasses all of Nebraska. For time's sake I've included a letter from David Honnens, CEO of the NGA. In short, we are opposed to this legislation for the simple reason that we believe it will hamper the growth and future of the game by adding additional costs to those looking to take the first step in the learning through lessons. Those individuals go on to add to the Nebraska sales tax base in numerous other ways by everything else being taxed in golf via sales, even more than the average golfer playing without prior lessons, as spelled out in the letter. Thank you for your time today. I'm happy to answer any questions you may have.

LINEHAN: Thank you very much for being here.

BRENNEN MILLER: Thank you.

LINEHAN: Are there questions from the committee? Seeing none, thank you much. Good evening.

TIM KEIGHER: Good afternoon, Chairwoman Linehan and members of the committee. My name is Tim, T-i-m, last name is K-e-i-g-h-e-r. I appear before you today in opposition to LB497 and LB314 on behalf of the Nebraska Petroleum Marketers and Convenience Store Association. I've sat here for six hours with all of you, almost six and a half. I think I've got this figured out. Everybody who wants-- nobody wants to be the person behind the tree that's taxed. Senator Friesen doesn't, Senator Briese doesn't. I guess we feel the same way. We don't want our customers to be taxed because we know they have alternatives. I think you've heard all of the border bleeding issues and-- and those things from other folks. So I just want to be on record that we are also in opposition to this. With that, I'd try and answer any questions.

FRIESEN: Thank you, Chairman Linehan.

LINEHAN: You're welcome.

FRIESEN: I think I am the guy behind the tree.

TIM KEIGHER: You are the guy behind the tree right now, yes.

FRIESEN: Thank you, Mr. Keigher.

LINEHAN: I think you walked into that. So all right. Any other questions? I know we're kind of slaphappy but-- at least I am. Senator Groene.

GROENE: Thank you. Is the reason the ag is taxed is because they're the only ones that can't leave unless we reroute the Missouri River so that we become part of Colorado or something?

TIM KEIGHER: I suppose that might work with Kansas I heard earlier too.

GROENE: But is that fair that the only people who can't cut and run are the ones that's taxed?

TIM KEIGHER: Well, my-- my members can't either. I mean they're-- they're located in different parts of the state and they're depending on [INAUDIBLE].

GROENE: And what's your organization again?

TIM KEIGHER: I'm sorry?

GROENE: What was your-- who are you representing here?

TIM KEIGHER: Nebraska Petroleum Marketers and Convenience Store Association.

GROENE: All right. I know what they sell, convenience stores.

Thank you.

LINEHAN: Thank you. Thank you both, Senator Friesen and Senator Groene. Anybody else, questions? Thank you for being here.

TIM KEIGHER: Thank you.

LINEHAN: Are we-- anybody else? I don't care what position. Everybody got to testify, right? All right. Wonderful. Thank you very much. Senator Briese, would you like to close?

BRIESE: Well, just briefly. Thank you. Had a lot of great discussion today. And you know from that discussion it's apparent we need to be cognizant of the border bleed issue, need be cognizant of-- or be careful that we don't implicate business expenses and input. We must recognize the need to protect and enhance business success and economic growth in our state. What about the big picture? Property tax relief is about controlling spending and changing how we pay for things in order to correct the imbalance in our tax structure and changing how we pay for things means raising new revenue to offset property taxes. Without raising revenue we're not gonna accomplish much. A revenue package needs to be the foundation of a tax reform package this year. We have an enormous challenge ahead of us as a committee, I know that. It's going to require some very tough

decisions. I think we're also presented with an opportunity, perhaps a generational opportunity, and we can't let that slip away. Nebraskans are counting on us to get this done. So thank you.

LINEHAN: Thank you.

LINEHAN: Letters for the record, everybody that wasn't here. So LB314 proponents: Nick Faustman, Cancer Action Network; Brian Krannawitter, American Heart Association; David Crouse, these are proponents, Research Nebraska Inc.; Sarah Jensen, Greater Omaha NA-- excuse me, N, yes, NARI; Anjanetter Bonham, Adams County Convention and Visitors Bureau; Lynn Nejezchleb, Fairfield, here's one that wasn't here, Fairfield Opera House Brewery and Grill; Megan Arrington, Williams, First Street Brewing Company; Michael Dulaney, Nebraska Council of School Administrators; Rob Winter, Greater Nebraska Schools Association; Britt Thedinger, Nebraska Medical Association; Richard, I know this and can't think how to say it, Goertzen, Beatrice; Margie Magnuson, Omaha; Terry Jessen, Oshkosh; Deborah Levitov, Lincoln. Opponents: Ben Stone, Simple Wellness Massage; Cyndonna Tefft, Crossroads Massage Clinic; Melissa Sharp, Associated Counseling Group; Michael Sothan, Main Street Beatrice; Ted Powers, Anheuser-Busch; Jim Engelbart, Nebraska Craft Brewers Guild; Joseph Knutson, Knutson Construction Services; Todd Sanwick, Sanwick Remodeling Contractors; Jacob Robison, Nebraska Hop Growers Association; Scott Strain, Kros Strain Brewing Company; Amy and Richard Hilske, Cellar 426 Winery; Bill Sauter, OHARCO; Melissa Sharp, Associated Counseling Group; Kim Kavulak, Nebraska Brewing Company; James Watson, Pint Nine Brewing Company; Gerald Homp, he was here,

BottleRocket Brewing Company; Jason Berry, Bottle Nut-- and Ryan Koch, BottleNeck [SIC] Rocket Brewing Company; Dallas Archer, Upstream Brewing Company; Anne Klute, Nebraska Cornhusker Chapter of Associated Builders; Jim Engelbart, Brewing Company; Joe Margheim, Flyover Brewing Company; Andrea Margheim, Flyover Brewing Company; Bill Barurek, Infusion Brewing Company; Tony Thomas, Farnam House Brewing Company; Joe Levy, American Suntanning Association; Brian Podwinski, Blue Blood Brewing Company; Guy Jukes, Jukes Ale Works; Tom Wilmoth, he was here; Lindsey Clements, Vis Major Brewing Company; John Fahrer, Scriptown Brewing Company; Joe-- Noah Stone; Eric Leyden SARO Cider; Nicholas Simonson, O'Neill; Richard Hagedorn was here; Janet Nuss, Lincoln; Andy Hale, Nebraska Hospital Association; David Slattery, Nebraska Hospital Association, they're against it. Check that. Kevin Cooksley, Nebraska State Grange; Kim and Todd Bali-- Bali-- Baliman, Kimball; David Fudge, Nebraska Travel Association; Trevor Schaben, Thunderhead; Dana, Dana, excuse me, Dana Medeiros; Nick Benes, Norfolk; Debbie and Roger Thompson, Lincoln; Jim Stutzman, Lazy Horse; Steve Vlock; Michael Nelsen; George Kubat, Phillips Manufacturing Company; Eric Hallman, Nebraska Independent Community Bankers; Darby Paxton, Holt County Economic Development; Eric Kamler, Mayor of Geneva; Nancy Carr, Lincoln; Doug Wittman, Dodge; Mitch Muhs, Omaha; Sarah Linden, Generation V; Woodmen of the World Life

Insurance and Society; Robert Hallstrom, he was here; Shannon--
Shannon Olberding, Atkinson Community Foundation; April Naab,
Hair of Dog or Hair of the Dog, Aurora; Wendy Kraus, Holdrege;
Jeff Hanson, Green Flash Brewing; Jeff Hadden, Soldier 6 Valley
Spirits; Rodney Keim, Brush Creek Brewing Company; Barbara
Bailey, Lincoln; Lee Todd, Arch-- Archimedes One Investment;
Wayne Smith, Lincoln; Jill Morrow, Denton; Jen Seim, Chapman;
Gary and Faye Gutgesell, Lincoln; Zac Triemert, Omaha Brickway;
Greg Ptacek, Johnnie Byrd Brewing Company; Corey Stutte, Mayor
of Hastings; Lynne Friedewald, Hastings; Kelsey Oliver, Lincoln;
Patrick Mejstrik, Valley; Renata Mc-- MacAlpine, Ord; Amy Wimer,
Lincoln; Rich Schommer, Alliance; Kim Johnson, Lincoln; Amy
Williams, Lincoln; Deanna Larson, Lincoln; Becky Ohlson,
Lincoln; Lora VanEtten, Lincoln; Alyssia Meyers, Lincoln;
Britton Bailey, Lincoln; Megan O'Connor; Larry Scherer; Tiffani
Thomason; International Bot-- Bottled Water Association;
Anheuser-Busch Companies; MillerCoors LLC; John-- Johnson
Brothers of Nebraska; Associated Beverage Distributors of
Nebraska; Nebraska Liquor Wholesalers; Nebraska Calf [SIC]
Brewers; Nebraska Licensed Beverage Association; Jim Ack-- Stone
Brew, Jim, I'm sorry, can't say your last name, A-n-c-i-a-u-x,
French, Stone Hollow Brewing Company; American Council of
Engineering Companies of Nebraska; American Institute of
Architects, Nebraska Chapter; American Massage Therapy

Association, Nebraska Chapter; Associated General Contractors, Nebraska Chapter; Durham Museum; Greater Omaha Chamber; Iowa/Nebraska Equipment Dealers Association; Home Builders of Lincoln; Metro Home Builders Association Coalition; Lincoln Chamber of Commerce; Lincoln Children's Zoo; Nebraska Association of Commercial Property Owners; Nash-- National Association of Insurance and Financial Advisors, Nebraska; National Federation of Independent Businesses; Nebraska Association of Trial Attorneys; Nebraska's Bankers Association; Nebraska Beverage Association; Nebraska Chamber of Commerce and Industry, they were here; Independent Bankers, here; Licensed Beverage Association; New-- Nebraska New Car and Truck Dealers Association; Nebraska Petroleum, they were here; Nebraska Press Association; Nebraska Realtors Association; Nebraska Restaurant Association; Nebraska Retail Federation; Nebraska Society of CPAs; Nebraska Telecommunications Association; Nebraska Transportation Association; Nebraska Travel Association; Nebraska Veterinary and Medical Association; Omaha Zoo was here; Renewable Fuels Association; Self-Storage; Speedway was here. Neutral, none. With that, we close the hearing on LB314 and open the hearing. More people came. Senators Friesen, are you ready to open on LB497?

FRIESEN: Thank you, Chairwoman Linehan and members of the committee. My name is Curt Friesen, C-u-r-t F-r-i-e-s-e-n. It seems like between me and Senator Briese, we have destroyed every industry in the state. I'm-- I'm here today to introduce LB497, and it's legislation that fixes the inequity in school funding and addresses the overreliance on property taxes as a funding source for K through 12 schools, and it provides an allocation to the state's Cash Reserve to help backfill and stabilize the state's emergency fund, rainy day fund. First, my bill seeks to address the inequity. If you're a family lucky enough to live in 1 of the 67 or so public school districts which receive equalization aid, the state has picked up a significant portion of your school's basic funding for education. If you're a family unlucky enough to live in 1 of the 175 unequalized districts, the state has abandoned, in some instances, all responsibility to cover the basic cost of educating your students. How can we continue to justify treating students so differently? They would-- they would be more, you know, if we provided funding it would be more attractive to families. The Legislature, the university, government agencies, and nonprofits all spend millions of dollars talking about rural development, while in school districts, some school districts, 3 percent of the population pays 70 percent of the taxes levied. If we really care about attracting and keeping young families in

rural Nebraska, let's work on keeping a quality, affordable education accessible. LB497 also addresses our overreliance on property taxes to fund education. It reduces value-- agricultural valuations for purposes of funding K through 12. As you'll see in the handout provided, agricultural property taxes, not valuations, actual taxes paid have increased in your districts in most cases more than 150 percent, in some cases more than 200 percent over ten years. Residential and commercial taxes have increased as well, which is why it is important to drive down all property taxes. While this bill lowers agricultural valuations, it backfills school funding to discourage a shift onto other types of property and lowers the local effort rate to relieve the residential and commercial taxes proportionate to the increase. This bill is designed to release the pressure valve on struggling industries and homeowners who are paying a disproportionate share of education, which is a policy priority of the entire state. If you'll look at data that shows residential taxes, you know, we've talked about the different increases in-- in ag land prices and commercial and residential. But if you-- if you look at the actual increases in-- in taxes paid in residential and commercial, they've been relatively flat. You know, you'll see a 10 to 13, 15, 20 percent increase, sometimes a 30 percent. But you have to remember that there's new construction added into

that, so that new construction is added to that tax also. If you take the new construction out and treat it like ag land, well, there is always less ag land instead of more, the actual property taxes on residential homes in some counties actually went down over that ten-year-period. Finally, this bill is paid for and the first year of implementation will infuse the state's Cash Reserve with at least \$150 million. And cities with local option sales taxes could see million doll-- millions of dollars in windfalls. Lincoln itself stands to receive nearly \$25 million annually. Imagine how much property tax that could provide. What is the odds of that happening? Slim, because there's no controls on that. We've not talked about increased costs of spending in our cities or counties. We've-- I've focused mostly on schools. Not unlike LB314, you'll hear a lot of opposition to this bill, opposition to a tax on food, opposition to a property tax asking cap, opposition to eliminating sales tax exemptions. In reality, LB497, when fully implemented, sends more money out to schools than they would otherwise receive under the status quo. It seems there is opposition, though, to those dollars being more equally distributed. My bills ensures more schools get more money. I'm willing to work with the large and small schools alike on amendments to this bill to ensure that every school has a means to pay for growing needs. I'm also willing to negotiate on the

revenue provisions. I've not set out to destroy any industry, including the craft breweries, or increase sales taxes without giving folks the benefit of property tax relief. It's been exhausting over the last four years watching folks burn down compromise over single provisions and turf battles. No bill is introduced in perfect form and nothing is off the table. In Nebraska we exempt \$2 billion in sales tax on consumption, not business-to-business transactions but business-to-consumer sales. That's what most states tax and that's what allows us to remain competitive. The biggest impediment to making Nebraska competitive is taxing our largest industry, agriculture, at a rate higher than any other state that we contend with. We contend we need to do more to attract businesses to this state. The great irony of this debate is that our state's overreliance on property taxes is driving homeowners and businesses that require significant real estate investments, such as agriculture, out of the state. Let me repeat, folks are worried about paying the 7th highest property taxes of all, the 12th highest cigarette taxes of 25, 25th highest income taxes. But farmers and ranchers you'll hear from today pay the highest, number one, property taxes in the country and very few people in the audience or in this body seem to care. When it comes to paying for property tax relief, everyone is going to have more skin in the game. This might shock everyone but farmers and

ranchers, we get haircuts, we get their clothes dry cleaned, they use legal and pet services, they get massages, and sometimes they even eat and certainly drink craft beer. What's interestingly is clear and very frustrating is that the status quo is easier. If you're satisfied with your lot, it's easy to kill anything that makes the system better and fairer for all. But property taxpayers are tired of this shortsightedness and the knee-jerk reactions. Everyone wants great schools. They want accountability and a functional government and they want a tax system that makes sense for business, families, and individuals alike. I'm asking this committee to work with me and others to send LB497, with or without every single provision written, to the full body for debate. And I'm asking my colleagues to get serious about property tax relief and help us pass something that's meaningful to-- before more families leave the state or are discouraged from moving here in the first place. You know, we, when we look at the shift that's happened, I mean we're talking about a billion-dollar shift in taxes and yet we keep saying over and over that we don't want to see this shift. Where-- where was everybody when the shift was happening? All of the rural schools have lost all of their equalization aid. It's all been picked up by agriculture, our number one industry. And right now there's a lot of families suffering. Thank you.

LINEHAN: Thank you, Senator Friesen. So we're-- we're going to go-- how many people want to testify? OK, we're going to go three minutes. We're going to go five proponents, five opponents, one neutral. And if you don't get questions from the committee it's not because we're not listening. We have been here for a while yet. So don't feel like if you come up here and we're not grilling you that, you know, we're not listening. We are. So let's start out with proponents. And you all know there's-- there's our pages, have been here all day. They're worn out but they're there to help you if we can. You know to say and spell your name, right?

KANE WELLNITZ: Hello. I am Kane Wellnitz, K-a-n-e W-e-l-l-n-i-t-z, and I am testifying on behalf of myself and my friend David Schuler in support of LB497. The points I will bring up today reflect those of many young farmers and ranchers across the state, including those in this room. I am a 21-year-old, third-generation cow/calf cattleman near Chadron, Nebraska, in my junior year of studying agribusiness. David is 23, just graduated in December with a degree in animal science and is busy today working with his family near Bridgeport, Nebraska, on their cow/calf operation. He wishes he could be here but they started calving their first-year mother's yesterday and new calves and mothers must take priority for him. We are both near

and dear Nebraskans and enjoy taking part in our state's number one industry. As for many young farmers and ranchers across this state, being a part of the family operation, learning and growing with our parents and siblings and being caretakers of the livestock and the land is what we live for. In many communities across the state, farming, ranching, or any agriculture-related job really is the centerpiece of the community's economy. There is a lot to love about this state, from the rolling plains and grass-covered Sandhills to its fertile soils and booming start-up economies in Lincoln and Omaha, but there are certain things we as Nebraskans can do to make this state better and fairer to all. LB497 starts us down a path toward a solution to excise property tax burden in our state, lowering ag land valuation taxing to 40 percent of market for funding K through 12 schools over a three-year period and calling on the state to fund all school districts to 50 percent basic education brings clear focus to the path and the final solution. Respectfully, from our point of view, land does not go to school, people do, and all citizens of this state should have a sense of responsibility to fund basic education more equally, not relying on a select group of citizens. With the property tax becoming close to around 35 percent of an average farmer's income, in addition to paying property tax on the full value of our residential and our commercial buildings, it is hard to see

the light at the end of the tunnel for young, aspiring farmers and ranchers in this state. It is deterring them from returning to family farms and being a part of the future of agricultural industry. Speaking on behalf of many here in this room of the younger generation, property tax collection trends are concerning and will need solutions to make farming and ranching economically viable for our own families in the future. David and I find joy in thinking of our futures in this state. We find ourselves deep in conversation of what we want for our futures and how to work together between our two ranches and our communities. We believe Nebraska is a center stage and epicenter for agriculture and raising food for all in the world. Like many other young farmers and ranchers, we want to be part of the conversation of solving our broken property tax and education funding system. Thank you.

LINEHAN: Thank you. Thank you very much for being here. Do we have any questions of the committee? Where did you go to high school?

KANE WELLNITZ: Chadron.

LINEHAN: OK. Nice place. Any other questions? Thank you very much for being here.

KANE WELLNITZ: Thank you.

MERLYN NIELSEN: Senator Linehan and-- and committee. My name is Merlyn Nielsen, M-e-r-l-y-n N-i-e-l-s-e-n, and my residence is Seward. Besides being an ag landowner, I'm also a board member of Fair Nebraska. We appreciate Senator Friesen for bringing this bill and adding significantly to the narrative on how we tax to support education. The bill has clear direction on a path to a final solution, a sustainable solution. I'm sharing a handout with all of you right now to assist me in communicating ideas today. The top two sheets are from an economic study conducted by Dr. Ernie Goss of Creighton University that examined the tax situation for agriculture in Nebraska. The full report is available on our Fair Nebraska Web site. Looking first at the top sheet, we find Goss's estimate of the property taxes paid as a percentage of income, 2010 through 2016 years. Over that recent time period, residential and commercial are essentially flat, going across at 3 percent and 4 percent respectively. Property taxes as a percentage of ability to pay each year stand out as overwhelmingly large for ag land. With the recent decline in farm and ranch income, the percentage exceeds 36 percent in 2016. And farmers do pay those two lower lines as well, because we pay for our houses and we pay for our commercial buildings. So is this unique for Nebraska or do all states around us that we compete with for grain and livestock production also have a disproportionately large tax on ag land?

Please look at the second sheet. Again from the Goss study we see the dollars in property taxes per bushel of corn, and they're about three times as large in Nebraska as they are in Kansas. It is reported in December of this year in the Journal Star that Nebraska has 25 Chapter 12, which are for farmers, bankruptcies filed and that number is three times as large as it was in 2015. Finally I ask that you look at my third sheet that I provided. I hope that this sheet helps bring some light to the mathematics of valuation changes and property tax changes for different taxing districts. I'm only providing data on Seward, Blaine, Sarpy, and Douglas Counties, so a couple rural and-- and two urban counties. I'm going to jump down a little bit so I get done in time. Valuation changes and tax collection changes and perceived shifts between classes of property are a function of weighted averages. The math takes a little more effort to reveal what happens. Let's now look at that bottom portion. At the very bottom part I have some data from my property out in Seward County.

LINEHAN: How about maybe we can get somebody to ask you a question. OK? Do we have any?

MERLYN NIELSEN: [INAUDIBLE] go.

LINEHAN: There you go. Senator Kolterman.

MERLYN NIELSEN: Yes, sir.

KOLTERMAN: Mr. Nielsen, would you continue explaining your math here? Continue with your testimony.

MERLYN NIELSEN: Oh, the math example at the bottom? Yes. Between 2013-2014, my valuation on my ag property in Seward County increased by 49 percent. The valuation on my house and my buildings and my building site did not go up during that year period. My taxes went up 30 percent so the size of the check that I wrote up went up 30 percent for the ag-- for the land, went down 12 per-- 12.5 percent on my house, my buildings, and for everyone else's house in Seward County. It's called shifting. And that's why we need to realize the mathematics of what goes on. If you're in a county that has a very high residential and very low agricultural, you could have a tremendous change in agricultural reduction and see very little change as far as an increase in residential.

LINEHAN: Thank you. Other questions? Thank you, Senator Kolterman. Are there other questions from the committee? Thank you for all your work you're doing on this,--

MERLYN NIELSEN: Thank you for your time.

LINEHAN: --very much appreciated.

DOUG NIENHUESER: Chairman Linehan and members of the Revenue Committee, I thank you for all your hard work. We're handing out a sheet here. You just heard how property taxes--

LINEHAN: Name. Name. Got to say your name.

DOUG NIENHUESER: Oh, I'm sorry.

LINEHAN: That's OK.

DOUG NIENHUESER: Doug Nienhueser, D-o-u-g N-i-e-n-h-u-e-s-e-r. I am president of Fair Nebraska and I also farm and have cattle out by York. I have two sons home, allowing me to come do this work today. You just heard how property taxes are harmful to Nebraskans. The next thing we always hear is, well, farmers don't pay income taxes. So I've gone to the Nebraska Department of Revenue's Web site, and if you take a look at that, there's no special tax law for farmers. We are paid by the same rules, the same regulations, and at the same rates as every other business in Nebraska. The average farm and ranch income tax liability in Nebraska in 2016, the latest data they have available, is \$3,267 per return. Compare this to the average income tax liability for all Nebraskans of \$2,414.07. So farmers do pay income tax above average of what all Nebraskans pay. The next thing is why, why do we complain; we're-- we're only taxing 75 percent of our valuation. So again I went to Table 19,

Nebraska Department of Revenue, and this next chart is where that came from. And if you take a look there, residential has the asterisk that includes ag dwellings and farm homes site land. We all pay the same as every other residential property in Nebraska. Second, notice items C and D. Both commercial and agriculture pay taxes on equipment used for normal business, one just the same as the other next. Notice, items A, B, E, and G. All represent a tax on business structure used in everyday operations. Again, all are treated equally. Fourth, the only item left is F, agricultural land. This is taxed, valued at 75 percent of valuation. Notice this is a tax that only agriculture pays. Ag land is a necessary resource for farmers, the same as a client list to a commercial business such as a restaurant, a lawyer, or what have you. Nobody pays on that client list.

LINEHAN: Thank you very much. So are questions from the committee? So just-- this is the chart you're talking about.

DOUG NIENHUESER: Yep.

LINEHAN: OK. So the point being here just this is the total value of all the railroads, total value of public service entities. And then you went through-- run me through it again once. I'm sorry.

DOUG NIENHUESER: OK. Well, notice that item H, residential property,--

LINEHAN: Yep.

DOUG NIENHUESER: --all Nebraskans pay. We're all lumped in that group.

LINEHAN: OK.

DOUG NIENHUESER: OK. Then item C and D, which is commercial and industrial equipment, ag machinery, we all pay on our equipment we use in our business,--

LINEHAN: OK.

DOUG NIENHUESER: --one just the same as the other.

LINEHAN: OK.

DOUG NIENHUESER: The next one you look at the railroads; the public service entities; ag outbuildings and farm site land; and commercial, industrial, mineral. Again, we're all paying our business structures and the stuff we use in our everyday business.

LINEHAN: OK.

DOUG NIENHUESER: The only one left is agricultural land, which is equivalent to a tax on what we use to earn an income. We don't tax any other business on what it uses to earn an income.

LINEHAN: I see what you're saying. OK. OK. And then down here is the state totals of all these tax, all these prop-- values,--

DOUG NIENHUESER: Right. That-- that chart is--

LINEHAN: --\$245 billion.

DOUG NIENHUESER: directly off of Table 19 on Department of Revenue.

LINEHAN: OK. Thank you very much.

DOUG NIENHUESER: Very good.

LINEHAN: This is helpful. Any other questions? Senator Kolterman.

KOLTERMAN: Thank you. Is part of your proposal, Doug, would you-- would you talk a little bit about your proposal to eliminate the tax on agriculture because you're really being double taxed? Is that-- isn't that something that Fair Nebraska is advocating for?

DOUG NIENHUESER: Yeah. We feel it's a tax that no other business pays in the state and ag land really has no tie to education. There's no benefit there.

KOLTERMAN: Uh-huh.

DOUG NIENHUESER: And, you know, in order to get accountability, and especially in rural Nebraska, we can have no accountability when in many cases ag is picking up over 60 percent of the tab.

KOLTERMAN: And so that 40.49 percent is-- is a huge part of the bite of the apple.

DOUG NIENHUESER: Right, and that-- that's a state average.

KOLTERMAN: OK. Just wanted to make that point clear.

DOUG NIENHUESER: Yeah.

KOLTERMAN: But you do pay taxes just like you would in-- and my-- like I pay taxes on my house and my outbuildings. You pay those same taxes in addition to your land taxes.

DOUG NIENHUESER: Right. Right.

KOLTERMAN: Thank you.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: The ag, that land valuation, is that at 100 percent or is that at the 75 percent?

DOUG NIENHUESER: That's the 75 percent. That's what this-- that's what they have on the Department of Revenue's Web site.

GROENE: They-- they say it's at 75 percent.

DOUG NIENHUESER: Yes.

GROENE: Because everything-- the assessor goes out and values everything at 100 percent. And then they take a-- when they bill you, assess their taxes on you, they take it times .75.

DOUG NIENHUESER: Right.

GROENE: And you say that's what they reported at .75 or the 100 percent value?

DOUG NIENHUESER: I assume that's what they did, Senator Groene.

GROENE: But not sure. All right.

DOUG NIENHUESER: Yeah.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Thank you very much for being here, appreciate it.

DOUG NIENHUESER: Great. Thank you.

LINEHAN: Good evening.

DAVE NIELSEN: Evening. I wish it was afternoon still, bet you do too. Senator Linehan, members of the Revenue Committee, my name is Dave Nielsen, D-a-v-e N-i-e-l-s-e-n, no relation to Merl but I do know him. I'm a fourth-generation Nebraska family farmer. I farm in northern Lancaster County. I'm here to testify in support LB497. I also support property tax, school finance, and property valuation reform, which I think it's going to take a various amount of bills to accomplish that. All of these are areas that need to be addressed this legislative session for true property tax reform. Equality before the law is the motto on our state seal and on our state flag. It's the principle that each independent being must be treated equally by the law. I believe over time that the way we are taxing people through our current system has distorted one of the main principles this state was founded on. Let me explain by providing an example of two different taxpayers in the Waverly school district. The first one is someone you'll likely know. His name is Dan Whitney, a.k.a., Larry the Cable Guy. I'm not picking on Larry with this example, I enjoy his work, but it illustrates my point. Larry is a homeowner and landowner in Waverly school district. He pays about \$23,000 in school tax. It costs roughly

\$8,759 to educate a student in the district. That means Larry is paying for the education of about 2.6 kids in the Waverly district. Keep in mind that Larry's net worth is about \$80 million and makes roughly \$20 million a year. The other taxpayer in this scenario is me. My wife and I have two kids in the school in Waverly school district and one past Waverly graduate who is at the University of Nebraska and came to watch her dad testify today. My home and farm is located in the district so I also pay taxes there. The property taxes on my farm alone pay for the education of roughly 14 students in the district, my 2 kids plus 12 others. My net worth and annual income are not quite any way comparable to Larry's. Larry pays for 2.6 kids' education and my farm alone pays for 14 kids' education. That doesn't seem like equality. My point is that property ownership is not a sign of someone's ability to pay for public education, yet it's the dermi-- the determining factor in who pays for schools in our current system. We need a better system. That's why I support LB497, specifically the parts that expand the sources we use to fund schools and raise revenue to replace property taxes. We'll never address property taxes if this body doesn't recognize we have to broaden sources and raise revenue to fund schools. Rebalancing taxes is not raising taxes. Property owners have carried a heavy burden for long enough. I encourage you to start with sales tax as a replacement of

property taxes because at least sales taxes are prorated to your spending habits. People do not have a choice of what they-- people do have a choice of what they buy. Thank you for your service to the state. And I ask that you please work together with your colleagues to find a solution. In the words of Larry the Cable Guy, let's get 'er done.

LINEHAN: OK. Thank you.

DAVE NIELSEN: I would be pleased to answer any questions.

LINEHAN: You-- oh, you did give us this. Good. Thank you. Questions from the committee? This is a great analogy. It's very good. Thank you.

DAVE NIELSEN: Thank you.

LINEHAN: Very good.

DAVE NIELSEN: And Chris is home working for me today.

LINEHAN: That's good. That's what Chris needs because he's going to-- he wants to farm, you know?

DAVE NIELSEN: I know. Thank you.

LINEHAN: Chris is my nephew that works for Mr. Nielsen. Next proponent. We have more proponents here? Maybe, as you guys who

testify and then you're done, you can move back and let the next guys that coming up, come up, so it goes a little quicker. Good evening.

KEN HERZ: Good evening. My note says good afternoon,--

LINEHAN: Yeah.

KEN HERZ: --but I guess we'll change it. Good evening. Senator Linehan, members of the Revenue Committee, my name is Ken Herz, K-e-n H-e-r-z. I'm a rancher from Lawrence, Nebraska, where I operate my farm and ranch with my family. I currently serve as president-elect of the Nebraska Cattlemen and I'm here today on behalf of the agricultural leaders working group to testify in support of LB497. The ag leaders working group consists of elected leaders of Nebraska Cattlemen, Nebraska Corn Growers Association, Nebraska Farm Bureau, Nebraska Pork Producers, Nebraska Soybean Association, Nebraska State Dairy Association, and Nebraska Wheat Growers Association. I want to thank Senator Friesen and the cosponsors of this bill for bringing forward a comprehensive "pattage"-- package to put in place structural changes to provide an alternative to K-12 education funding while lowering property taxes. The committee has heard and seen the data, data of large discrepancies between funding of all schools and the overwell-- whelming burden on high property

taxes for all Nebraskans. The difference had been most significant for agricultural property and three out of four schools in Nebraska do not get equalization. While the burden has continued for agricultural property owners, increases for residential and commercial property owners is also starting to rise. The greatest impact of high property taxes are felt in rural Nebraska. I have a neighbor who farms and runs some yearlings in addition to trucking to help make ends meet. He told me that he pays \$48,000 in property taxes. I have another friend nearby that farms and runs a cow/calf operation. He relayed to me that his property tax is over \$80,000. In my own case, my property tax bill is 21 times higher than my state income tax bill and amounts to 42 percent of my net income. This is not sustainable. There is a better way to fund schools, the largest user of property taxes. LB497 puts in place systematic changes over three years to lower ag land valuations down to 40 percent, provides basic education funding at the level 50 percent for all K-12 schools, and provides a one-time transfer of funds into the Cash Reserve. This bill provides comprehensive solutions that will lower property tax for all Nebraskans. The ag leaders group spent a great deal of time concerning solutions for Nebraska's overreliance on property taxes. The components of this bill have been thoughtfully considered and the members of the agricultural organization that appear on behalf of have

testified in support of separate stand-alone bills in the past that are now contained in this bill. We have been clear, we have been clear that we are willing to support raising revenue to fund property tax relief, while understanding those increases will also affect property-- agricultural producers who are consumers of goods and services. The situation is critical. People are frustrated to anger. The members of the ag leaders working group encourage the Revenue Committee to advance LB497.

LINEHAN: Thank you.

KEN HERZ: It is time for the full Legislature to have a debate on solutions.

LINEHAN: Thank you.

KEN HERZ: Thank you.

LINEHAN: Questions from the committee? Seeing none, thank you very much for being here. Did you give us a copy of your letter or testimony for the--

KEN HERZ: I can get a copy.

LINEHAN: OK. That's OK. Thank you much. OK. That's five. Was that five?

CRAWFORD: Yes, that's five.

LINEHAN: OK. So opponents.

BRIANA CUDLY: I feel weird doing this in my coat, so I'm going to take it off [INAUDIBLE]. Hello, everybody. I'm Briana Cudly, B-r-i-a-n-a C-u-d-l-y, and I'm the government relations chair for the AMTA of Nebraska. You guys have already heard from me and a lot of what my-- I went very early so it's-- it was afternoon then, it's evening now. And I was going to read my written testimony but I'm gonna go a little off script. I was sitting back here thinking, gosh, I wish I could come up here and ask which one of you would like a massage. You've been sitting here all day. Your brains are not working well. I'm sure your back, shoulders, and necks are giving you a little bit of issue. But I'm not allowed to ask you questions so I'm going to skip that part. But I would like to put that in your head right now. Massage therapy is a healthcare profession in the state of Nebraska. In 1987, Nebraska increased massage therapy educational standards to move us from masseuse and masseur to that of massage therapist. And, unfortunately, there's a lot of stereotyping of what our profession is, but we are not associated with the beauty industry. We have our own separate practice act. We are in the credentialing act. We do have our own regulatory board and we are covered by flex, health-- health savings accounts, VA, Medicaid Advantage, personal injury

workmen's comp. We take classes in kinesiology, pathology, health ethics, health service management. General-- or, I'm sorry, Attorney General Peterson signed a letter to the America's insurance, health insurance plans, specifically naming massage as a nonpharmaceutical pain management option to help combat the opioid epidemic. Here in Nebraska, we do not tax healthcare and health-- massage therapy is actually a healthcare profession, and taxing healthcare to help alleviate property taxes is not only bad policy but actually contradicts Nebraska healthcare policies. We're asking that you strike massage from these bills and/or you could put in "except when performed within the scope of practice of a licensed massage therapist or healthcare professional." I've also sat around and listened to a lot of things today, and I don't want to throw stones, but I also pay property taxes on my building. I own my building and it's where I do my work, and without it, you know, I wouldn't be able to do the work that I do. We all pay property taxes. I pay a lot in property taxes on my building. I also am not getting paid. I've been here all day. I don't have somebody at home in order to fill in for all of my Valentine's Day clients that I am missing out on. I have missed an entire day's worth of income. I don't get sick days. I don't get-- I don't get vacation days. And you know we all-- my husband is an educator. My husband is a principal. You know, we all have a stake in property taxes.

LINEHAN: Thank you.

BRIANA CUDLY: Healthcare is not where we want to go with this.

LINEHAN: Thank you. Questions from the committee? Thank you very much for being here. Good evening.

CONNIE KNOCHE: Good evening, Senator Linehan and members of the committee. My name is Connie Knoche, C-o-n-n-i-e K-n-o-c-h-e, and I'm the education policy director at OpenSky Policy Institute. And I'm here today to testify in opposition of LB497. While we appreciate its attempt to reduce the state's reliance on property taxes, there are several details in the bill's financing mechanism that we find concerning. We are all seas-- we are also strongly opposed to a tax on groceries unless it's offset by a credit for low- and middle-income families. However, my testimony today will be focused primarily on the education finance piece of the bill. While LB497 increases state aid to schools over three years and reduces dependence on property taxes by lowering the local effort rate. It does create some losers among school districts, primarily due to the maximum property tax authority, and would result in across approximately 80 school districts losing revenue compared to the current law. And that's using 2019-20 current state aid in what-- what we had modeled this would do. Additionally, there are four schools that

would lose over a million dollars or more in revenue in one year. Equalized school districts that are at their maximum levy receiving more than a 5 percent increase in state aid will lose out under LB497 as it's currently structured. For example, in your handouts there is an example of Cozad, who is at their maximum \$1.05 levy, and under LB497 would receive over 2 million more in additional state aid. The property tax authority mechanism accounts for the increased state aid and drops their maximum levy from a \$1.05 down to 82 cents in one year because of that increase that they're getting in state aid. When you compare state aid and property tax under current law, 1990-- or 2019-20 to what LB497 does, they end up actually losing a million dollars in total revenue. School districts receive a majority of their property taxes twice a year, twice in collections but it crosses tax years so it could create cash flow problems for them. And finally, the bill doesn't consider increases in state aid due to changing demographics, such as increases in poverty students or ELL learners, or an increase in special education services which could cause further budgetary issues for the schools. Because of these factors, we are unable to support LB497 in its current form. I've also handed out testimony in opposition to LB677 and would like to include that in the record. Our primary opposition to LB677 is that it

reduces funding for schools by over \$100 million because of the mechanisms in that bill.

LINEHAN: OK. Thank you.

CONNIE KNOCHE: Thank you.

LINEHAN: Thank you.

CONNIE KNOCHE: And I appreciate your-- your time and work.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank-- oh, wait minute. Senator Groene, I'm sorry.

GROENE: Might as well be here till midnight anyway. But anyway, important topic, I'm trying-- how did you come up with this section here, the school district state and local resources shall be calculated, such amount shall be equal to the school district state and local resources from the prior fiscal year, increased by the base growth, which is basically--

CONNIE KNOCHE: Two and a half percent.

GROENE: --2.5 percent for inflation? The school--

CONNIE KNOCHE: So I used '18-19.

GROENE: The school districts been really, Ashland was up here, been really efficient with their money, kept their resources

down, didn't spend to the level-- levy they could. They're going to be punished, aren't they?

CONNIE KNOCHE: Yeah.

GROENE: And if somebody was wasn't frugal and spent to the max, they're going to come out OK because that's going to be their base year, right?

CONNIE KNOCHE: Right.

GROENE: And it's-- it's the resources--

CONNIE KNOCHE: It's always looking at the previous--

GROENE: --it's the resources that they receive, not the resources that-- it's receipts, isn't it?

CONNIE KNOCHE: Yes.

GROENE: Doesn't say receipts but all right.

CONNIE KNOCHE: Yeah.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Thank you very much.

CONNIE KNOCHE: Thank you.

LINEHAN: Next. Good evening.

JAMES GODDARD: Good evening. My name is James Goddard, that's J-a-m-e-s G-o-d-d-a-r-d, and I'm the director of the Economic Justice Program at Nebraska Appleseed here today to testify in opposition to LB497. I want to acknowledge the complexity facing our state and this committee with current conditions related to property tax. We appreciate Senator Friesen's efforts and the efforts of other committee members. I'm not here to comment on the entire bill, just want to focus on the portion on sales tax of food. And what-- what I can tell you is we work with and talk to people every day in this state who are struggling. Despite working hard, they're struggling. One in ten kids live in a house below the poverty line, despite having parents that are working. And so families in this position are struggling to balance life's necessities, housing, childcare, and importantly food. We know almost 13 percent of people in our state face food hardship, which means they don't always know where their next meal is coming from. With conditions like these, increasing the cost of food is not imaginable. But that is what this bill would do. It would make it harder for more people to feed their families and it's a burden that low-income families should not have to carry. For these reasons, we would respectfully urge the committee not to advance LB497 as written. Thank you.

LINEHAN: Thank you very much. Do we have questions? Yes. Senator Briese.

BRIESE: Thank you, Chairwoman Linehan. Thank you for being here. Could we exempt out WIC-eligible items to alleviate the regressivity concerns on the low-income folks?

JAMES GODDARD: I could be wrong. I think that those are-- those exemptions stay under this piece of legislation. WIC is a commodity food program that is only certain commodities and only certain people are eligible for it. So that's going to help some people but it's not going to help an enormous number of people who aren't eligible for the program. The same issue exists for SNAP. SNAP is a supplemental program. It is not designed to pay for the entirety of someone's food costs every month. In fact we know SNAP runs out for families before the month is over. It's about a \$1.25 per person per meal. And so leaving SNAP out of it, leaving WIC out of it doesn't reflect that families actually use those programs as supplements and the food that they would then be buying under this legislation, is crafted, would be taxed in a way that would be new and would be really difficult for them to handle.

BRIESE: But aren't only certain food items eligible for WIC, and if we exempt those items for everybody would that help?

JAMES GODDARD: You're right that there are some. It's products like-- like milk and bread and--

BRIESE: Necessities.

JAMES GODDARD: Yeah, essential necessities. The eligibility levels for that program are such that only some people are able to get it.

BRIESE: OK.

JAMES GODDARD: And so leaving it the way it is wouldn't-- wouldn't help the larger number of people in this state.

LINEHAN: Thank you, Senator Briese. I think-- I think there was miscommunication there. I think, I think what Senator Briese is saying, what if we had tax on food but not on your basics like WIC, not on milk, not on bread, not on potatoes, not on-- not on your basic things, but it would be like an expansion of doing junk food. So would you be against taxing candy and pop? And then you could kind of-- so I don't know what's-- what is-- what WIC all covers, but I think that's where he was trying to drive that.

JAMES GODDARD: OK. So WIC covers a very small number of products. It is only a few, I think maybe five, six, seven items. It's not a very large number of products. So if you were

going to go on that direction you would really have to do some--
some inquiry into saying what are the essential items for people
to meet their basic necessities, and you would have to look at
all of those things. I don't think the WIC package would,
itself, would-- would actually reflect that.

LINEHAN: Isn't that the definition of what the WIC package is,--

JAMES GODDARD: I can--

LINEHAN: --basic necessities?

JAMES GODDARD: I can get back to you with exactly what's in it.
It is not.

LINEHAN: OK.

JAMES GODDARD: It is a smaller package than it sounds like is--

LINEHAN: OK.

JAMES GODDARD: --is being thought of. It is not a large package.

LINEHAN: I think that would be a good question though. And thank
you for getting back to us.

JAMES GODDARD: Uh-huh.

LINEHAN: Did I have a question over here? Senator Groene. Or Senator Kolterman. I don't care. Let's one of you go.

KOLTERMAN: I got my question answered.

LINEHAN: Yeah.

GROENE: And I forgot mine.

LINEHAN: Little brain drain up here on my part. Anybody else? I'm sorry. Thank you.

JAMES GODDARD: It's been a long day. Thank you for all you're doing.

LINEHAN: Yeah. Thank you.

JULIA TSE: Good evening. For the record, my name is Julia Tse, J-u-l-i-a T-s-e, and I'm here on behalf of Voices for Children in Nebraska. We are-- we really appreciate the herculean task that is before this committee. And we are so thankful, too, for all of the work that senators have done on this issue. We are here specifically opposed to the provision that eliminates the exemption of grocery items for families because it would disproportionately have a negative impact on Nebraska's family's bottom lines. So just as an example, I did some calculations for this committee to help ground this

discussion for what the elimination of this exemption would do. For a family of four living in urban counties at 140 percent of the federal poverty level, which that family would not be eligible for SNAP but still likely struggling to make ends meet, they would expect to spend on a modest grocery basket a quarter of their income on food or \$764 monthly. Under this bill as written they would spend an additional \$504 in additional taxes annually out of an income of roughly \$36,000 gross. I would welcome you to input your own counties and families at various levels of poverty at FamilyBottomLine.com. To the point about SNAP, I would really echo some of Mr. Goddard's points. This exemption fails to shelter low- to moderate-income families from the broad-- from the broader impact of taxes on groceries. Not all families who struggle to make-- to make ends meet are already eligible for or receiving SNAP. First, income eligibility in SNAP in Nebraska is far from a living wage for most families, as Senator McCollister knows very well. As a result, many food insecure children who may need assistance are unable to receive it. And secondly, SNAP benefits are only intended to supplement family income for food expenditures. The benefit calculation for SNAP already assumes that families will spend 30 percent of their net income on food. So as Mr. Goddard mentioned, most families run out well before the end of the month. One recent study examining the application of state and

local tax to groceries found a statistically significant relationship between grocery tax rates and levels of food insecurity. Even after controlling for variables, researchers found that what each 1 percent point increase in grocery taxes increases the probability of household food insecurity by .6 percent among low-income families. Alternative options exist in other states that have adopted targeted credits or rebates to families by income and household composition. There was a question earlier this afternoon maybe-- oh, sorry.

LINEHAN: That's OK. Thank you for being here. Are there questions from the committee? Oh, yes, Senator McCollister. Thank you.

McCOLLISTER: Yeah. Welcome. Good to see you. Thank you for coming. What percentage of Nebraska families are food insecure?

JULIA TSE: For children that number was 18 percent, the last numbers that I looked at. And not all of those children are eligible for or receiving SNAP.

McCOLLISTER: Would you say that those people that are food insecure are primarily in urban areas?

JULIA TSE: They are spread across the state. So in our Kids Count book you'll-- hopefully you'll have a copy, but if you

don't I can get one to you. At the back of the book, there is pretty wide-- there are high numbers of food insecurity across our entire state. And it's not just in our urban counties. In fact, many of our rural counties have the highest levels of food insecurity.

McCOLLISTER: If we raise the gross income eligibility for SNAP, would that-- would that eliminate some of the food insecurity?

JULIA TSE: It very well may. There's a lot of research out there about how effective SNAP is in moving families out of poverty. And sort of similar to the food insecurity data, when you look at the data on SNAP utilization county by county, also in the Kids Count book, there-- there are pretty high utilization rates in our rural county as well-- counties as well.

McCOLLISTER: Thank you.

JULIA TSE: Thanks, Senator.

LINEHAN: Thank you, Senator McCollister. Senator Crawford.

CRAWFORD: Thank you, Madam Chair. And thank you for being here. I-- I wondered if you could just explain how one of these alternative options that's a targeted credit or rebate works.

JULIA TSE: So I have to say that I am not a tax expert, but this is an approach that other states have taken. So they-- it's sort of like our EITC, or earned income tax credit, where you structure in that families-- only certain families are eligible based on income level and household composition. And some states have structured it where it scales down as you earn more income and then at some point you're not eligible for that credit any longer. So that's sort have been the middle ground between an exemption and fully taxing groceries.

CRAWFORD: So just like a tax credit or tax exemption once a year.

JULIA TSE: Yes. So you would-- you would receive it in your-- in your refund.

CRAWFORD: Thank you.

LINEHAN: Thank you, Senator Crawford. Senator Groene.

GROENE: How is food insecure calculated? Is it just a calculation or does somebody walk up to little children and say, are you hungry at 11:55?

JULIA TSE: Yes. So this is a definition that the USDA came up with. There are a couple of ways to look at it, but basically it

means that that family has-- has not had stable access to food at some point in the last year.

GROENE: But how do you--

JULIA TSE: I-- I--

GROENE: --social workers interview them or--

JULIA TSE: I could get back to you, but I believe that it is survey data. So they most likely took a very large survey and then--

GROENE: Actually asked the people.

JULIA TSE: Uh-huh.

LINEHAN: Thank you, Senator Groene. Other questions? Thank you very much.

JULIA TSE: Thank you.

LINEHAN: Next opponent.

ANN HUNTER-PIRTLE: Good evening. I'm Ann Hunter-Pirtle, A-n-n H-u-n-t-e-r-hyphen-P-i-r-t-l-e. I'm the executive director of Stand for Schools. I want to thank all of you for giving all of us the opportunity to testify and want to thank Senator Friesen for his commitment to quality public education. We have three

main concerns with this bill. I'll be brief. First, we have concerns of property tax asking caps; second, with the lack of allowance for poverty and ELL; and third, we have concerns with the grocery tax provisions. I'll leave it there and also note that we oppose LB677 because it would allocate \$100 million less to public schools than the current formula would. I'll end there and happy to take questions.

LINEHAN: Thank you. Senator Briese.

BRIESE: Thank you. And thank you for being here. What type of tax asking cap or cap would be palatable to your organization do you think?

ANN HUNTER-PIRTLE: As we see it, schools are already subject to both levy limits and budget limits. And so even if schools have money, it doesn't mean they're allowed to just spend it on anything. So we believe that the current property tax challenges the state faces are not due to school spending. They're due to both a jump in ag land valuation and a lack of funding from the state. So--

BRIESE: Thank you.

ANN HUNTER-PIRTLE: --that's where we come from.

LINEHAN: Thank you, Senator Briese. Other questions from the committee? Senator Kolterman.

KOLTERMAN: So what's the name of your organization again?

ANN HUNTER-PIRTLE: Stand-- Stand for Schools.

KOLTERMAN: And who finances you? Who's in your school-- in your program?

ANN HUNTER-PIRTLE: We're a nonprofit. We're funded by the Sherwood Foundation. We have support from the Cooper Foundation here in Lincoln, Woods Charitable Fund as well as some other generous individual Nebraska donors. So--

KOLTERMAN: OK.

ANN HUNTER-PIRTLE: --our-- our funding is 99.9999 percent from Nebraska. We got a \$50 check once from somebody in Illinois, which was kind of them.

KOLTERMAN: Thank you.

LINEHAN: Thank you, Senator Kolterman. Are you seeing-- I think I'm trying to-- did you say that it didn't take into consideration poverty and ELL. I don't think that Senator Friesen's bill rewrites the TEEOSA formula, does it?

ANN HUNTER-PIRTLE: It doesn't. My-- my understanding is just that in-- in-- as he's looking to adjust the, and forgive me, I'm getting bills mixed up today,--

LINEHAN: That's OK.

ANN HUNTER-PIRTLE: --as I'm sure you all are. My understanding is just that as he's looking to shift away from-- from a reliance on property taxes, that as the state is backfilling that for-- for districts, there's not that-- that recognition of ELL and poverty in that [INAUDIBLE].

LINEHAN: I think that's a misrepresent-- I don't know in this [INAUDIBLE] problems with the sponsor of the bill not being up here. But unless he is, unless his bill-- and Senator Groene is maybe looking at this right now, unless his bill rewrites the needs formula of TEEOSA, he's not doing anything with ELL or poverty.

ANN HUNTER-PIRTLE: OK. I'm happy to--

LINEHAN: So I don't think it does. So--

ANN HUNTER-PIRTLE: Again, yeah, I don't have--

LINEHAN: --just to be fair to Senator Friesen,--

ANN HUNTER-PIRTLE: Sure. I don't have--

LINEHAN: --it does do anything with the needs side of the
formula,--

ANN HUNTER-PIRTLE: OK.

LINEHAN: --which is where you find your poverty--

ANN HUNTER-PIRTLE: Right.

LINEHAN: --and your ELL.

ANN HUNTER-PIRTLE: That's right. I will--

LINEHAN: OK.

ANN HUNTER-PIRTLE: --I will take a look again and follow up with
members of the committee.

LINEHAN: OK. Senator Groene.

GROENE: Thank you. Yeah. No, I can't see any-- the bill doesn't
address needs at all. It leaves the needs side of it. There's
two sides to the formula.

ANN HUNTER-PIRTLE: Right.

GROENE: It doesn't touch the needs side--

ANN HUNTER-PIRTLE: OK. I may have--

GROENE: But what it does is put more emphasis on the state to fund more of it.

ANN HUNTER-PIRTLE: Sure.

GROENE: So if you're-- is your concern then that you don't trust the state?

ANN HUNTER-PIRTLE: No. I-- I may just be mixing a couple of different bills up today. I'll, again, I'll-- I'll reread the bill and follow up.

GROENE: And we keep hearing-- which I think is too high-- but we keep hearing that everybody's only increased their spending by 1 or 2 percent. LB497 allows 2.5 percent. And if the CPI goes above 2.5 percent, he's going higher than that. So that's higher than what the existing formula only allows 2.5 percent. He hasn't changed that, increase in needs each year, total.

ANN HUNTER-PIRTLE: Right. Again, and OpenSky testified to this a few moments ago, according to their analysis there are 80 districts under LB497 as written that would lose out under this current bill, and that's what we have concerns with.

GROENE: Then it's probably those ones that-- the low spending ones that you want to trap them at the low spending number instead of what--

ANN HUNTER-PIRTLE: Uh-huh.

GROENE: --what they would be, the budget would allow, the TEEOSA would allow them to do.

ANN HUNTER-PIRTLE: Right.

GROENE: I'm assuming those of are the 8-- 80 you've identified.

ANN HUNTER-PIRTLE: Uh-huh.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Thank you very much.

ANN HUNTER-PIRTLE: Thank you.

LINEHAN: That was five. So do we have anybody a neutral? All right. We have neutral. OK.

McCOLLISTER: My goodness.

SARAH CURRY: My name is Sarah Curry, S-a-r-a-h C-u-r-r-y. I'm here for the Platte Institute and we are testifying in a neutral capacity. LB497 focuses on an interesting issue that we've received a lot of feedback on since we began surveying Nebraskans on property taxes last year. Much of the property tax reform discussion has historically revolved around revenue, but

the policy included in LB497 also focuses on another important factor, which is the property tax limitation for school districts. Many property taxpayers, especially agricultural, feel that they are at a disadvantage in their communities in regards the school district taxes because they are disproportionately higher than the other locally levied taxes. Of all the property taxes levied at the local level, school district taxes make up approximately 60 percent of the property taxes paid. A Platte Institute poll conducted last month found that a strong majority of Nebraskans supported a new state law to further limit how much property tax, excuse me, how much property tax local taxing subdivisions could collect, either by limiting the property tax rates or valuations. The Platte Institute supports a property tax relief and an expansion of the sales tax base to sales which are not business inputs. Today we have an increasingly service-based economy and the sales tax base needs to be updated to account for this change. This principle of including services in the sales tax base is agreed to across the philosophical spectrum among tax policy experts. I took a hunch and I thought you might hear some discussion on the sales tax levy on groceries so I added a handout with my testimony that shares with you how every state in the nation taxes food. On a historical note, when the state levied its first sales tax in 1967, it included groceries or food for

consumption. It also included food stamps, as they were then called, or now SNAP. The exemption that we have today was put into place in 1983. This exemption I think came with-- when there was a federal change because the SNAP is now exempt, thanks to federal law. So groceries were tax for 16 years before a change was made. Today there are 30 states, if you include Washington, D.C., that completely exempt, and then there are 7 states that only levy a sales tax on groceries at the local level. Hawaii, Idaho, Kansas, Oklahoma, and South Dakota all tax food but have chosen to offer a rebate or income tax credit to compensate the poor. However, our opposition lies is that we do not believe it is wise to fund property tax relief by increasing other tax rates. The increase in the cigarette tax and alcohol taxes are not reliable revenue sources to replace a reliable revenue source such as property tax. Excise taxes, when used to raise revenue, are notoriously regressive. The use of higher cigarette and alcohol taxes to fund public education is not a principled use of excise taxes. Education is an important enough-- I'll stop.

LINEHAN: Thank you for policing yourself. And, Senator Friesen, I'm sorry, not Senator Friesen, Senator Groene, I don't have to leave. Senator Briese. OK, so this is sales tax for every state. So are you saying everybody taxes food?

SARAH CURRY: No. So if you look, it's a little bit confusing.

LINEHAN: Oh, I see. OK.

SARAH CURRY: So if it's blank, they do tax, which I think is not good on this chart here. If there's a dash they also tax, so Alabama and Alaska tax. If there's an asterisk they do not tax. But then you look there, Georgia, an asterisk with a "subnote" of four. That means that they don't tax it at the state level but they tax it at the local level.

LINEHAN: I get it. OK.

SARAH CURRY: And then you can see their prescription drugs and nonprescription drugs, how those are also handled.

LINEHAN: OK. Thank you.

SARAH CURRY: And so it's a bit misleading, because if you see the blank you think it's not taxed but it is.

LINEHAN: OK. All right. Other questions? Senator Groene.

GROENE: So how many tax food--

LINEHAN: I'm sorry.

GROENE: --of that total?

SARAH CURRY: Twenty-one or, well, if you count D.C.

GROENE: So the states'--

SARAH CURRY: Yeah, 21.

GROENE: --sales tax rates and food and drug. So when it says tax rate, that's what they tax on food.

SARAH CURRY: Right. So if it's-- if like, for example, let's see, where's one here? Yeah, so Idaho has a 6 percent sales tax rate and they don't have an exemption. So the full 6 percent is levied on food. Now all SNAP is exempt because that's a federal law.

GROENE: Yeah.

SARAH CURRY: Yeah. So that's-- that's that one, where Illinois, they just do a 1 percent state tax on food, where like Louisiana, they don't have a state tax on food. They just let the locals tax food.

GROENE: Does-- question. Does any other states differentiate, different taxing entities, the valuation on farm or commercial? Or are they the same valuation across the board? This bill proposes to have 45 percent or 30, 40 percent or 55 on only

General Fund revenues for a school district. The county's still going to be at 75. The NRD's--

SARAH CURRY: Uh-huh.

GROENE: --still going to be at 75. Do any other states differentiate the valuation of-- of a-- one of the three legs of property tax of commercial, agriculture, and residential for a different taxing entity?

SARAH CURRY: I'm going to say it back to you, make sure I understand--

GROENE: Yeah.

SARAH CURRY: --your question. So in his bill he's saying that the school district levy for agricultural property is a different val--

GROENE: Not the levy, the valuation.

SARAH CURRY: --or the valuation is different than, say, cities and counties and others.

GROENE: Yeah.

SARAH CURRY: OK. No, I have not found that to be the case. Normally agriculture is treated as a separate entity. In Iowa

they treat commercial and industrial property separately and they have a lower valuation. But I've never seen it to where just school district or just the city or just the county have a different valuation versus everyone else. If you're going to reduce it, it's for a type of property but it's not based on the levying subdivision. Does that make sense?

GROENE: That whole valuation, everybody's cut, like we did when we went to-- from 100 percent to 75 or whatever, 85. It's for everything.

SARAH CURRY: It's for everything. And that's the way I've seen it in other states. Iowa didn't have the Supreme Court case like Nebraska did. So they do treat industrial and commercial property differently. We can't do that here because of the '92 decision.

GROENE: Thank you.

SARAH CURRY: You're welcome.

LINEHAN: Thank you, Senator Groene. Senator McCollister.

McCOLLISTER: Ah, thank you, Madam Chair. I received a list of sales tax provisions from Nebraskans United for pop-- Property Tax Relief. I'm going to read off some of the exemptions, and

you would say yes or no whether the Platte Institute would--
would agree to those particular provisions.

SARAH CURRY: Am I allowed to plead the Fifth if I haven't done
research on some of them?

McCOLLISTER: Yes.

SARAH CURRY: OK.

McCOLLISTER: Candy, soft drinks, and bottled water.

SARAH CURRY: No, unless it was in a broader grocery overall
provision, not singled out.

McCOLLISTER: Tangible personal property repair, motor vehicles.

SARAH CURRY: We would encourage an exemption for that.

McCOLLISTER: All right. Pet-related services.

SARAH CURRY: We would encourage that to be in the base, unless
it was in the case of a service animal and that would be
considered a medical expense, which should be exempt.

McCOLLISTER: Real property remodeling, painting, repair and
interior design for residential housing.

SARAH CURRY: Yes, that's-- be a service.

McCOLLISTER: Personal care services, including hair care, massage, tanning, nail spa, and tattoo services.

SARAH CURRY: Yes.

McCOLLISTER: Storage and moving services.

SARAH CURRY: Yes.

McCOLLISTER: Parking fees.

SARAH CURRY: Yes.

McCOLLISTER: Clothing, cleaning and repair. Clothing cleaning and repair.

SARAH CURRY: Yes.

McCOLLISTER: OK. Parking fees.

SARAH CURRY: Yes.

GROENE: You've said it.

McCOLLISTER: Clothing. Oh, I've said that. Travel agency services.

SARAH CURRY: Yes.

McCOLLISTER: OK. Membership and admissions to zoos and aquariums.

SARAH CURRY: Yes.

McCOLLISTER: Dating and escort services.

SARAH CURRY: Yes.

McCOLLISTER: Taxi, limousine, and other transportation services.

SARAH CURRY: Yes.

McCOLLISTER: Lawn care and landscaping and gardening.

SARAH CURRY: Yes.

McCOLLISTER: Tele-- telefloral.

SARAH CURRY: Yes. That's telefloral delivery specifically.

McCOLLISTER: Yeah.

SARAH CURRY: Yeah.

McCOLLISTER: Tour operators.

SARAH CURRY: Yes.

McCOLLISTER: Historic automobile museums.

SARAH CURRY: Yes.

McCOLLISTER: Swimming pool cleaning and maintenance.

SARAH CURRY: Yes.

McCOLLISTER: Music, dance, golf, and other recreational services.

SARAH CURRY: Yes.

McCOLLISTER: Well, that's about \$100 million.

SARAH CURRY: I mean we really do believe that if we expand the sales tax base to include services that it will give the state the needed revenue to make significant property tax reform decisions. And that's why we-- we think it's a noneconomic-- economically detrimental way to get the revenue necessary to fund our core government services, such as roads and education, without detrimentally affecting the state of Nebraska, which is why we're neutral on this because we like the-- the control aspect of it, but we don't like the increase in the-- the cigarette, alcohol taxes to offset it.

McCOLLISTER: Thank you, Mrs. Curry.

SARAH CURRY: You're welcome. Thank you.

LINEHAN: Thank you. Other questions? Senator Groene.

GROENE: So just like when you came on-- on my bill, the part you like is the control on the increase--

LINEHAN: Uh-huh.

GROENE: --of the property taxes.

SARAH CURRY: That's correct. And we like the expansion of the sales tax base. But we don't like the-- the cigarette and alcohol increases.

GROENE: But you [INAUDIBLE] making no other comment. That's why you're neutral on-- on how we [INAUDIBLE].

SARAH CURRY: Yeah, I'm-- I don't claim to be a education finance specialist. I'm going to leave that to you.

LINEHAN: Other questions from the committee? Thank you very much for staying.

SARAH CURRY: Thank you. And Happy Valentine's Day again.

LINEHAN: Yeah, we're happy.

GROENE: Yeah, we're real happy.

LINEHAN: Next.

CRAWFORD: Proponents.

LINEHAN: We're going back to proponents, right?

CRAWFORD: Uh-huh. Right.

GREGORY LAUBY: You're going where?

CRAWFORD: Proponent.

LINEHAN: Proponents. So if--

GREGORY LAUBY: OK. I was going to testify neutral. I'll take my turn [INAUDIBLE].

LINEHAN: OK. I'm sorry. Yeah, I'm sorry. We got to-- it's one neutral, so now we go back to proponents.

GREGORY LAUBY: That's fine.

LINEHAN: Proponents.

LAVON HEIDEMANN: Madam Chair, committee members, my name is Lavon Heidemann, L-a-v-o-n, Heidemann, H-e-i-d-e-m-a-n-n. Thank you for giving me the opportunity. I actually wasn't going to come up this year and be involved in much in the Legislature. There was an issue that came up a couple of weeks ago at my place that encouraged me and my wife encouraged me to get involved. There was a meeting, an informational meeting at the school that

they're thinking about doing a renovation or a-- a new facility. And she asked how this was going to affect us. And I had not thought about this. I usually don't even open my tax statements because I don't want to know. I come up here thinking that I was a medium-sized farmer. I do believe I am in southeast Nebraska. But I had listened to everybody else talk about how much they pay in taxes. I might not be as big as I thought I was. But for me it's still a considerable amount. In Johnson County, I told her this, I laid this out to her. I says in Johnson County district we have about \$2 million of valuation, taxable valuations. I said last year we paid about \$19,000, a little over \$19,000 in just K-12 education. I pay about \$26,000 total. Seventy-five percent of that goes to K-12 education. I said I talked to a school board member. They was thinking about a 15-cent bond for 20 years. The 15-cent bond per year would cost me another \$3,000.80. She asked me, well, what does everybody else pay? Why will they vote for it and we don't want to vote for it or we have hesitations because of where we're at financially right now in life? I looked this up. I had some help with some people that I trust very much. They told me that the average residence valuation in Johnson County central is \$76,000, little bit over. The taxes that they pay per year is \$717. If they get the 15-cent bond, per year they would pay \$114. She looked at me and said, what's this going to affect us over the 20 years? I'm-

- I'm 60 years old. We're starting to think about end of life. She's very worried about financial security. I said, well, the resident over 20 years will pay \$14,000 for General Fund, another \$2,000, little over \$2,000 for bond, for a total of \$16,000, little over \$16,000. I as a farmer, I took this right off my tax statements. If it holds, would hold steady over the 20 years, for just General Fund education I pay \$385,964, the bond would cost me \$61,603, for a total over the last-- the next 20 years, when I'm supposed to be slowing down, at \$447,568.40. I'm not a big farmer by any means. We're trying to figure out how we're gonna make this work. She worries about financial security. We talked about a lot of options. I will tell, we're trying to get a boy started in farming. She looks at me and she's-- gets emotional and she says, do we even want to let him get started in farming?

LINEHAN: Thank you, Senator. Thank you. This is very good. Questions from the committee? Thank you for coming.

LUMIR JEDLICKA: Good evening, Chairman Senator "lawn"-- Linehan.

LINEHAN: Good evening.

LUMIR JEDLICKA: We-- I served with Curt before in another committee back in the-- in the day when we were on the Water Task Force together. I'll introduce myself as Lumir Jedlicka,

and I'll spell that: L-u-m-i-r, Jedlicka, J-e-d-l-i-c-k-a. Come from Schuyler, Nebraska. I don't want to take a lot of time the gentleman just before me, I could ditto exactly what he was saying with my farm and my son that wants to come back and is back with me. And I guess I brought a little sheet that I got from my 7-- 70-- well, it was 78 acres. Back in 2000, the tax valuation was \$1,300 an acre on that. That's the valuation per acre. And in this last tax statement, it's-- it's now up to \$5,800 per acre, and that's an increase of about 18 percent a year, if my calculations are right. Now I'm going to jump to the school district which I served on. The taxes for the schools, and I'll put this in a dollar amount, from that piece of ground per acre was \$14.71 per acre. That's in 2000. To me that's not too long ago. Eighteen years later the school district is taking \$72 per acre out of that same acreage, per acre, \$72. That increase is 21 percent per year. I know I-- I included the bonds. In Schuyler we have the same problem the gentleman was talking about. We're going to increase our-- we're going to vote this next month, possibly build our buildings for more sports and to make our community feel more like the other communities. We are now building-- we're now building a science room, we're now building another classroom; \$12.5 million is what the bond is going to be asking for. My wife looks at me the same way. Why? Why are we encouraging my son to farm? I've been very

involved in boards, on the NRD I was 12 years, on the school board I was 12 years. I voted no a lot and got run over a lot. So I guess I'll end with that. I appreciate your time.

LINEHAN: Thank you very much for being here. Do we have questions from the committee? Senator Groene.

GROENE: Thank you. Do you got irrigated ground?

LUMIR JEDLICKA: I have some dryland and some irrigated, yes.

GROENE: What's your average cost per acre on irrigated?

LUMIR JEDLICKA: Average cost per acre.

GROENE: I mean not cost per acre but the property tax, tax, not just school, the [INAUDIBLE]-- your tax.

LUMIR JEDLICKA: Right. On the irrigated ground it's close to \$80, \$85 an acre.

GROENE: And you're in the Schuyler district?

LUMIR JEDLICKA: Yes.

GROENE: Well, I heard it was higher than that from--

LUMIR JEDLICKA: There are some higher spots, I guess. I talked to a farmer back in Iowa when I was there for the summer vacation. His was half of ours.

GROENE: I'm talking Schuyler.

LUMIR JEDLICKA: Schuyler, yes, I understand.

GROENE: I thought Schuyler was around [INAUDIBLE] on irrigated. So what percentage of that \$80 dollars is school?

LUMIR JEDLICKA: It's a-- it's a good 66 or 70 percent now, somewhere in there with the bonds.

GROENE: So if we took the levy just across the board, went from 75 to 65, that would help you on valuations, too, wouldn't it?

LUMIR JEDLICKA: This bill would help tremendously, I-- I believe. It would-- it wouldn't be a quick answer because it's going to be phased in and-- and there's going to be a lot of time that escapes before then. And I guess it's going to be a change. It's in-- inequity is what this is about. I feel there we're-- a lot of people are living off the land. Let's say it. Right, they're living off the land. And I appreciate the shoulder pads are getting soft. You know, my shoulder's getting soft. But I think all us farmers feel that way.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Thank you very much for being here, appreciate it.

LANCE ATWATER: Good evening, Revenue Committee, and happy Valentine's Day. My name is Lance Atwater, L-a-n-c-e A-t-w-a-t-e-r, and I'm testifying in support of LB497. I did have a friend that would-- was not able to testify this evening, so I would like to submit his testimony for the record.

LINEHAN: Thank you.

LANCE ATWATER: I'm a second-generation farmer from Ayr, Nebraska, and farm along with my father, who's a first-generation farmer. He was actually born and raised in Santa Monica, California, and left California to come here to Nebraska to pursue his dream of farming. We're a diversified row crop operation, along with cow/calf. Here just this last fall, my wife and I purchased our first farm. It's exciting to own a piece of land but it's also unnerving not knowing what the future of agriculture will look like. One thing is certain though. Property taxes will continue to increase and burden us if we don't do something about it. The property tax crisis in this state frustrates me, but I'm even more frustrated about the inequity in how we fund K through 12 education and our

overreliance on property taxes. The school district where my land resides has seen a 68 percent decline in state aid since 2006 and 2007. Yet, our General Fund property taxes have increased by 122 percent over the same period. State aid as a share in basic funding for 2008- 2009 was 59 percent. Today that is 12 percent. This is unsustainable and something needs to be done. LB497 addresses the inequity problem and how we fund K through 12 education and our overreliance on property taxes. It rebalances the shift in property taxes to a broader source of revenue, which "reducens"-- and reduces the burden on property owners just like me. Some say you can't shift taxes or raise taxes. Yet, why has it been OK to raise taxes and shift taxes onto property owners? I want to remain in rural Nebraska and pass my farm on to the next generation. I want people like my dad to be able to move to our state and pursue their dreams just like he did. I want to-- I shouldn't have to worry about how much it will cost me in property taxes in the future. But, unfortunately, I fear that if property taxes continue to go up, I will be forced to sell my farm and I will have to move elsewhere. So please do something about this, help it so that I can have a future here in Nebraska and that I can pass my farm on to the next generation. It is impacting us young producers who want to be in this industry. And as you're all well aware, aware of, we're in a tough industry right now. So please provide

us some relief and work on getting this bill out of committee.
I'd be happy to take any questions from the committee.

LINEHAN: Thank you. Questions from the committee? Did you say
which school district you're in?

LANCE ATWATER: Blue Hill is where our land resides.

LINEHAN: OK. Thank you very much.

LANCE ATWATER: Thank you.

LINEHAN: Thanks. You can go ahead.

DAVID GRIMES: Good evening and Happy Valentine's Day. My name is
David Grimes, D-a-v-i-d G-r-i-m-e-s. Thank you, Chairwoman
Linehan and members of the Revenue Committee, for giving me a
chance to testify. I'm here to speak in support of LB497. This
bill is a good, comprehensive plan to fund good public schools
in Nebraska, lower property taxes, and to more broad-- fairly
broaden tax sources among the citizens of our state. A fair
system of taxation should be one which taxes citizens based on
their ability to pay and/or their willingness to spend. LB497
would bring us closer to this goal. My wife Becky and I own and
operate a family farm in Kearney County. We own and farm about
800 acres of irrigated farmland. My young son Matthew produces
row crops, hay, and cattle on about 200 acres of rented cropland

and 1,000 acres of rented pasture. We work together and help each other out. Land is both a productive investment and a cost of production. It's necessary, of course, to produce food, fiber, and energy. Becky and I pay about \$50,000 a year in property taxes on our farmland, home, and equipment. Real estate taxes on our farmland make up most of that total. Real estate taxes on farm and ranchland in Nebraska, as you know, in most cases are roughly double what they were about ten years ago. Practically all our farm expenses are higher than they were then, but our property taxes have increased far more. I'm 60 years old, at my stage in my career and my station in life, I'm able to do without what I can't afford. I hope I don't come off sounding selfish in discussing how high my property taxes are. I respect the difficult job you all have in trying to improve the way Nebraska funds our government and particularly our schools. I don't come to appeal for tax breaks for wealthy or otherwise undeserving taxpayers but, instead, I wish to raise up that Nebraska taxes its citizens disproportionately, not necessarily based on income, wealth, or necessarily the ability to earn and spend. Property taxes hit worse those amongst us who can least afford to pay: young farmers, producers are struggling with low prices, or farmers facing crop failures and high debt, retirees who depend on a modest-- modest farm for their retirement income, and renters. Yes, renters. Farmers and ranchers who rent

land may be hit the hardest. It's hard to negotiate lower rents with landowners in hard times when the landowner keeps having to pay higher taxes and sees a lower return. In closing, two of our sons are getting married in the next three weeks, Nathan on Saturday and Matthew on March 9. Both the young couples aspire to lives producing crops and livestock. Both will have to rent land to pursue their dreams. They, like many ranchers and farmers who rent land as well as own, will face challenges with high land costs due in part to high property taxes. I hope you can improve the good life we have in Nebraska by enacting LB497, not just for us but for those who follow us. Thank you for your service. And thank you, Senator Friesen, for your work.

LINEHAN: Thank you very much. Are there questions from the committee? Seeing none, thank you very much.

DAVID GRIMES: Thank you.

LINEHAN: Next proponent. Good evening.

BRUCE RIEKER: Good evening. My name is Bruce Rieker and my appear-- B-r-u-c-e R-i-e-k-e-r. As many of you know, I'm a registered lobbyist for the Nebraska Farm Bureau Federation. However, I-- I hope that this is OK with the committee but I am submitting written testimony for two individuals, one who had to take off and wanted to make sure that his opinion was known by

the committee. That is Andrew Schmidt. He's a fifth-generation farmer from Deshler in support of LB497. Oh, I-- I think as I read his testimony one of the things that I-- I hope the committee looks at is his second to last paragraph that talks about the effective tax rate on agricultural land. The second letter that I am submitting for you are on behalf of former Senator Jim Jones, who is seated over here, over my right shoulder, the third row back. Senator Jones asked me to do this because he's a little bit hard of hearing and just ask me to make sure that we got this into the record. His third paragraph echoes what I've heard from the last few testifiers and many more as he talks about how much his property taxes are on his ranch in Custer County, which are about \$82,000, of which \$59,000 goes to the Broken Bow school district and another \$3,170 per year goes to a bond issue. And as you can see, when he-- I know Senator Groene asked about taxes per acre, things like that. Former Senator Jim Jones puts it in context of what his property taxes are per cow. So if you have about a \$1,000 or an \$1,1000 cow, you can see he's paying 20 percent of-- or his property taxes eat up 20 percent of that cow every year, no pun intended. But I wanted to make sure that both of those gentlemen had the opportunity to have their comments reflected and presented to the-- the committee, and that's why I'm here.

LINEHAN: You did a very nice job of doing it. Thank you.

BRUCE RIEKER: Thank you.

LINEHAN: Thank you. Do we have any questions from the committee?
Senator Groene.

GROENE: Do you see any spending controls in this bill at all?

BRUCE RIEKER: In LB497?

GROENE: Yes.

BRUCE RIEKER: Yes.

GROENE: Where at?

BRUCE RIEKER: Well, the spending controls come from that there is a-- a cap that I believe is tied to the Consumer Price Index. And there is also the fact that as you reduce ag land values, by the fact of reducing ag values especially in districts that have hit the levy limit, that it-- it puts some spending controls in place. Yes.

GROENE: How would it do that? It says that you total the-- the previous year's state aid plus the property taxes, and you take it by 2.5 percent, which we do now, or the inflation rate if

it's higher. It actually increases. When years are above 2.5 percent, it actually increases the cost--

BRUCE RIEKER: Right.

GROENE: --of what we do now.

BRUCE RIEKER: Right.

GROENE: So where-- how do you consider that tax-- ?

BRUCE RIEKER: I didn't say that they were spending controls above and beyond what exists, but they are controls on spending but they--

GROENE: They're actually higher.

BRUCE RIEKER: Well, they-- but they also allow for schools that are growing to make adjustments as well. So I believe-- I mean now I'm not testifying for either of these individuals. You're asking me as a-- as a representative of Farm Bureau. I will answer that that is part of the reason that we support Senator Friesen's bill is because it allows for-- for that-- those growth instances, so--

GROENE: But it doesn't provide for the school districts that's getting smaller. It keeps the floor the same. Any district in their right mind would never, never levy less than what they did

the year before, even though they didn't need it, because that creates another lower floor for them because it's on the previous year.

BRUCE RIEKER: Uh-huh.

GROENE: So there's no incentive to [INAUDIBLE] there's 116 districts or more right now--

BRUCE RIEKER: Uh-huh.

GROENE: --ran by good school boards and supe-- and superintendents that actually levied less than what they could.

BRUCE RIEKER: Uh-huh.

GROENE: There's no incentive to keep doing that because they create a bot-- a lower floor the next year if they do. Because it's based on what-- what they levied the previous year, not what the-- their authority was to spend the previous year.

BRUCE RIEKER: Well, our modeling of it demonstrates that the funding for the schools actually goes up each year, that they get more funding than they did the previous year. Is that-- I mean--

GROENE: No.

BRUCE RIEKER: --am I not following your question correctly?

GROENE: Some farmers on school boards don't want more funding the next year.

BRUCE RIEKER: OK.

GROENE: They've done a good job--

BRUCE RIEKER: Yeah.

GROENE: --not leveling what [INAUDIBLE].

BRUCE RIEKER: Well, they don't have to do it.

GROENE: But then they're caught in a trap.

BRUCE RIEKER: Well, they're elected officials. I mean that that--
- OK, we talk about local control. I mean it's their prerogative and if they're doing that I don't see why--

GROENE: The way I see this, if you levy, you don't need it one year, right?

BRUCE RIEKER: Right.

GROENE: You don't need your authority to spend one year. So a good board says, let's lower our levy; we just need this much money. Now they've trapped themselves at a lower floor. In case

the next year they got two or three special needs kids, they can't go back to the-- to what their needs were, the needs formula says they need, because you've trapped them at a lower level.

BRUCE RIEKER: Well, as--and I don't want to speak for Senator Friesen, but those are things that I would suggest that this is something that the committee could take under consideration and figure out how to make the adjustments to make that work.

GROENE: Unless I'm misreading it, but that's the way I read it.

BRUCE RIEKER: Yeah.

GROENE: I mean you could change that quickly with an amendment, but--

BRUCE RIEKER: Yeah.

GROENE: --right now it does trap them.

LINEHAN: Thank you, Senator Groene. Other questions? I'm going to ask one just because you are-- you've been working this for years, I know. You mentioned local control.

BRUCE RIEKER: Yes.

LINEHAN: I think what Senator Friesen is suggesting here is 50 percent of the basic funding, which needs to be defined. And then if we do this and the other schools are equalized, we go with that 50 percent, at what point does the state Legislature, who's picking up half the bill or the other taxpayers, however you want to-- we're not, it's other-- we're taxing people; therefore, paying half the bill. Didn't-- when do we have some control over what they're doing? I just don't-- I don't understand how we're gonna go over 50 percent of paying the bill and sit on the sidelines and say, do whatever you want. I don't-- I don't-- that's just not good government.

BRUCE RIEKER: Yeah, it-- when we get in the realm of local control in school funding and-- and school boards and-- and their authority or lack thereof, that-- that to me, to us, that-- that is a very interesting question because we talk about local control but when we talk to school boards and school administration but mostly school boards, how much control they really have locally is minimal already because of the state prescribed requirements for basic education, because of the Commission on Industrial Relations pretty much dictates the range with-- within which you pay salaries and benefits, things like that. So I think that-- and I mean we've asked school boards. We've asked many folks in the education arena just how

much discretion or local control you have by the time that the state sets those standards. And some say 15 percent, some say 30. I don't know what that number is. But I think-- I think I understand you. If you're going to pay for 50 percent then how much do you get to dictate as far as how much they spend? That's a darn good question of where that control-- where that line moves is.

LINEHAN: Because there's a lot of wiggle room in schools. I mean they can say that it's all dictated from on high. But we have lots of schools have swimming pools; we have a lot more that don't.

BRUCE RIEKER: Right.

LINEHAN: We have-- we have people-- we have schools with what are their media center, arts center, stage is separate completely from their gym--

BRUCE RIEKER: Uh-huh.

LINEHAN: --and others that put their basketball team and the school play all in the same building. We have schools that have five or six foreign languages, and we have schools that have one. There's a lot of wiggle room.

BRUCE RIEKER: Uh-huh.

LINEHAN: So I just-- I think that's something we've got to stop.
If we're going to pick up half the bill,--

BRUCE RIEKER: Yeah.

LINEHAN: --then we're going to have to-- you know, and then to the basic funding. So we pick up half the bill and they've got the ability to keep running up the levies and the people who, according to Senator Heidemann's a little chart here, it's only costing them a couple hundred bucks.

BRUCE RIEKER: Right.

LINEHAN: So they just-- they decided to build swimming pools and have lacrosse and-- I mean I just-- I'm getting tired, obviously.

BRUCE RIEKER: No.

LINEHAN: I'm not asking a question. I am asking a question but I'm not being concise in my question.

BRUCE RIEKER: Well, I appreciate your question and I'm not trying to dodge the bullet. But to-- to bring up an issue, I mean from a Farm Bureau perspective, although it may seem small and we think that it's part of a bigger picture, it was incredibly concerning what happened with LB183 this week on the

legislative floor because, you know, some of that discretion in there, I mean it's--

LINEHAN: Right, it was disappointing.

BRUCE RIEKER: --in some school districts you have 3 percent of the people paying 70 percent of the bill--

LINEHAN: Yes.

BRUCE RIEKER: --for those school bond issues, and that was disappointing to see. I hope that as you move forward, both in the Revenue Committee as well as on the floor, that when a bigger package comes out of this Revenue Committee, and we are optimistic that you will produce that, that that issue about LB183 is not dead, but that does have a little bit of control over the bond issues. You know, specific to that, as I understand the-- the 50 percent guaranteed minimum made, that goes to the cost of basic education. Then there's all the additions on top of it, Senator. And I appreciate your question. We hear it from our members. We hear from nonmembers about, OK, the things above and beyond a basic education, you know, yeah, there's-- there's quite a bit of local control there, especially when it comes to bond issues.

LINEHAN: Right.

BRUCE RIEKER: In my opinion, that's complete local control. But when it comes to funding the basic education and where you find that line, I am not enough of an expert or have enough institutional knowledge on that to tell-- I wish I could. I'm not dodging. I wish I could tell you where that line is.

LINEHAN: I appreciate, I know you're not dodging. OK. I'm sorry. Any other questions? Thank you for hanging out,--

BRUCE RIEKER: You're welcome.

LINEHAN: --sticking with us.

BRUCE RIEKER: Thank you for sticking with us.

LINEHAN: That was five proponents so now we'll go to-- do we have any neutral? Is that what I go to now?

_____ : Opponents.

LINEHAN: Opponents. I'm sorry.

ASHLEY FREVERT: Good evening. It's so late. My name is Ashley Frevert, that's A-s-h-l-e-y F-r-e-v-e-r-t, and I'm the executive director of Community Action of Nebraska. We are the statewide association for Nebraska's nine community action agencies. Chairperson Linehan and members of the committee, I'm here to testify on behalf of all of our community action agencies. We

are part of a national network of nonprofits that's over a thousand of us across the nation. We are dedicated to helping people achieve economic stability. We are a hand up, not a hand out. Community action staff see firsthand the needs of Nebraskans as it relates to health and wellness, housing, nutrition, and employment. In federal fiscal year 2017 alone, our agency served 84,585 people. I'm here to testify in opposition to the grocery tax included in LB497. As you all know, food is a basic need for all of us. But compared to-- with other goods, families have less options for cutting their grocery costs while still providing a nutritious meal. Families can try to find ways to cut costs from other items in their budgets, such as clothing and maybe even utilities. However, options to cut costs from their grocery bill are limited. All Nebraskans, regardless of their income, must eat and provide food for their families. A grocery tax could impact the quality, variety, and amount of food Nebraska families can afford to put on the table. Data collected by community action agencies, so our data, shows that between October 2016 and September of 2017, 26 percent of those we served were in severe poverty, which is below 50 percent of the federal poverty guideline during those years. Our most recent data from federal fiscal year 2017 shows that our agency served 16,888 households statewide. Now out of those households we served 9,639 households receiving noncash

benefits, which includes SNAP. Let me be clear that these households do not receive enough SNAP benefits to cover their family's basic diet, nor was the benefit ever intended to do so. SNAP provides only about \$1.40 per person per meal. According to the numbers I've given you from our data, there were 7,249 households we served that did not receive those benefits such as SNAP, LIHEAP, TANF, Section 8, etcetera. Nebraskans value the good life. We build it together. We all want strong economy and prosperous communities. Access to food, healthcare, good schools, safe neighborhoods, and successful main street businesses are what make our city great. LB497 is not a good option for Nebraskans or Nebraska. I encourage the Revenue Committee to reject this bill. Its potential negative impact on our most vulnerable neighbors is too great to advance. Thank you for your time, consideration, and of course your service to Nebraska. And I'm "happer"-- happy to answer any questions you might have.

LINEHAN: Senator McCollister.

McCOLLISTER: Yeah, thank you, Madam Chair. If the taxing provision for food in this bill were eliminated, would you support the bill or be neutral?

ASHLEY FREVERT: We are coming in, in opposition to just the grocery tax. So I can only speak to how we feel about the grocery tax in the bill.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Other questions? Seeing none, thank you very much.

ASHLEY FREVERT: Thank you.

JEFF SCHNEIDER: Hello, Chairperson Linehan and members of the Revenue Committee. My name is Jeff Schneider, J-e-f-f S-c-h-n-e-i-d-e-r. I'm the director of Finance and Operations for the Hastings Public Schools. And the Hastings Public Schools is a member of the Greater Nebraska Schools Association, which represents over two-thirds of the students in this state. I'm here representing both organizations to testify in opposition to LB497. There's three things that concern us about this bill. One of them is, obviously, the restriction of receipts on school districts. There are certain situations when school districts may face challenges that 2.5 percent will not address. A school district-- also the second concern is that a school district that's in a tough spot next year, as you set it-- said it earlier, Senator Groene, somebody that's held the line on spending can't come out of a down cycle. And those of us that

are equalized or rely on state aid, a perfect example is my district which I'm about to explain in a minute. This next year is gonna be a year that it's very difficult for us. When you can only grow by 2.5 percent, you're never gonna come out of that. So it's all off a baseline year and it assumes that everybody's in great shape next year so going forward you'll be fine. That's not the case for all the school districts in the state. And then finally-- and this could be a language confusion. This may be something I misunderstood when I read the bill, but I'm not-- the bill does account for bonds being outside of this. However, it says approved bonds. So the question I have would be about bonds, such as the qualified school construction bonds and Build America bonds that were issued during the American Recovery and Reinvestment Act that were board approved. I guess that's probably more of a question than an opposition, but it is a concern. When I typed this I used the words "later this evening." Well, that was clearly wrong. Earlier tonight our school board in Hastings had a meeting. I-- I'm assuming they discussed, since I didn't get to attend it, \$900,000 worth of cuts for next year. That still leaves us about a million and a half short from having a balanced budget. I'm also assuming that they discussed tonight to go after a levy override election this spring in our community. And in addition to that, I'm assuming they discussed tonight how much cash reserve we're going to use

to still fill the gap, even if the levy override passes. Here's my point. We're in that situation, we ride the roller coaster of state aid. Less than a third of our receipts in Hastings come from local property tax. So we're that example of a school district that next year is in a down cycle. We know that. We're prepared for it. That's why we have cash reserve. When we've had good years we put that money in cash reserve because we knew there'd be bad years and we had to be prepared for that.

However, if this bill were to go into place and they use our baseline next year, we have no method to recover from that because when we would get a good break in state aid we couldn't take advantage of all of it because it would require us to lower our levy to offset that. So thank you for your consideration and I'd be happy to answer any questions you have.

LINEHAN: Senator Groene.

GROENE: What did you say about-- what percentage of your operating-- percentage of your income in state aid comes from property taxes?

JEFF SCHNEIDER: Less than 33 percent in our district comes from local property taxes.

GROENE: What percentage of your valuation is ag? You're landlocked. You want [INAUDIBLE] schools [INAUDIBLE].

JEFF SCHNEIDER: Almost zero.

GROENE: Almost zero.

JEFF SCHNEIDER: Yeah. I'm-- I'm not 100 percent sure that it's exactly zero but it's pretty close to that. We're pretty much strictly residential.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Senator Crawford.

CRAWFORD: Thank you, Madam Chair. And thank you for being here tonight and sharing your testimony, Mr. Schneider. What-- what in particular made this a bad year?

JEFF SCHNEIDER: So for us we lost about 110 students. So-- so you would think if we lost students we have less expenses. Well, 110 divided by 12 grades, that's about 10 kids per class. We have about 13 sections of grade level. That's less than one student a classroom. So it-- it's not the type of loss in student where we had 110 less kindergarteners come in and we could hire four less teachers. That was not the case. We have very high mobility, very high poverty. We're about 60 percent free and reduced lunch. So our-- basically, our state aid rolls with how our attendance rolls. We're on a down cycle right now.

We've seen those peaks and valleys over the years. So that's what's caused our particular situation.

CRAWFORD: Would it make-- would it make more sense then to put-- make the base a ten-year average or something at the beginning? Would that alleviate that concern?

JEFF SCHNEIDER: You know, I haven't studied that but I would think a ten-year average would probably be a better estimate than just what one particular year is. But I haven't studied that but--

CRAWFORD: Thank you.

GROENE: I have one.

LINEHAN: McCollister.

McCOLLISTER: Yeah,--

LINEHAN: Thank you, Senator Crawford. I'm sorry. Senator McCollister.

McCOLLISTER: Thank you. Why did you lose the students?

JEFF SCHNEIDER: That's a good question. We've had a couple of businesses close down in town.

McCOLLISTER: Oh.

JEFF SCHNEIDER: We think that's possibly it. There are two other schools in our community, a private school which is also down and then Adams Central, which is just outside of Hastings. It's only up about 30 students. So it's-- we, again, we believe it's due to our high mobility rate and our high poverty rate. It simply ebbs and flows. We have multiple students who will come and go multiple times to our district within one single year.

McCOLLISTER: Wow.

JEFF SCHNEIDER: They will transfer out, transfer back in two or three times.

McCOLLISTER: Well, thank you.

LINEHAN: Thank you, Senator McCollister. Senator Groene.

GROENE: So you're landlocked and you don't have any ag land. Do you see anything in this bill where your taxpayers will get any property tax relief at all?

JEFF SCHNEIDER: I actually think it will go the other way for us because I-- I-- I believe over time, when we have the shortfalls in state aid, I believe the bill allows us to go above the \$1.05 if that happens. Because it just lets you grow your total receipts by 2.5 percent, if I understand it correctly. And-- and so--

GROENE: But it does take your levy down, too, to .9, your LER down to .975, so there's 2.5 percent there I guess.

JEFF SCHNEIDER: But over time I would actually guess it would increase our levy.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. What's your teacher ratio? How many teachers do you have per student?

JEFF SCHNEIDER: I believe if you look on paper it'll say 14 to 1. If you look at actual classroom size it's about 21 to 1.

LINEHAN: How is that? How is it that the state average is--

JEFF SCHNEIDER: It's because--

LINEHAN: --12 to 1 or the state is 12 to 1 teacher, 1 teacher to 12 students, but everybody's got 20 kids in their class?

JEFF SCHNEIDER: Because that all-- like, for example, a special education teacher counts in that teacher to student ratio. However, they're not in a core classroom of first grade.

LINEHAN: But they are taking care of some kids at some time during the day.

JEFF SCHNEIDER: Absolutely, but a very small number of kids, because they're teaching high-needs kids with high dis-- high disabilities that--

LINEHAN: What's your percentage of SPED?

JEFF SCHNEIDER: About 25 percent.

LINEHAN: Why, why is your SPED, do you think, twice the state average, twice the national?

JEFF SCHNEIDER: I believe it's a "deruff"-- I believe it's a direct reflection of our poverty. We have a high poverty, high ELL percentage. We have high-need students.

LINEHAN: Just because-- well, OK. So you get 60--

JEFF SCHNEIDER: Again, that's, Senator, that's just my personal belief. I don't know that I have proof to document that.

LINEHAN: Sixty-six percent of your funding, 33 percent comes from property taxes, and you're getting 66 percent of your funding from the state right now.

JEFF SCHNEIDER: Roughly, yes. And we've been at the \$1.05 max in our district I believe since the day that law's been in place. We've never been below the max levy.

LINEHAN: So you're saying your state aid is going to go down because you lost 110 kids.

JEFF SCHNEIDER: Correct.

LINEHAN: OK.

JEFF SCHNEIDER: And it actually didn't go down. It doesn't grow and our expenses grow.

LINEHAN: OK, but would the expenses grow--

JEFF SCHNEIDER: But when it stays flat-- sorry.

LINEHAN: What do you think yours-- what's-- what's an allowable-- when you sit down to budget as your school board did tonight, what do you-- what do you think is a-- what inflation factor are you looking at for your expenses going up?

JEFF SCHNEIDER: Three percent.

LINEHAN: But, see, that's the problem. And I-- the schools, and not-- not just schools, all public entities, our state even, it's 3 percent a year. But the private industry, state employees, we're living with 1-1.5 percent inflation. So over the last ten years public sector has been going up 3 percent, private sector's been stuck at 1.5. We have one year in the last ten where we actually had deflation. So that's-- we have this

disconnect between what the private sector can pay and what the public sector says they can't.

JEFF SCHNEIDER: Senator, you asked me what inflation I used when I budget; was 3 percent. Our actual expenditures over the last ten years, I think I'm correct, 1.87 percent a year.

LINEHAN: But you're going back to the ARRA year when everybody got bumped up way high.

JEFF SCHNEIDER: Take that year out, I think we're 2.2.

LINEHAN: OK.

JEFF SCHNEIDER: So I we have tried to hold it in check. We've had no choice because we're up against the \$1.05. We also have more requirements put on us each year what we have to do and what we're required to do and what we're required to report. State testing is all on-line. We had to up our game-- technology. Those aren't options. Those are mandates. And so there, if you look at districts around us compared to what we've settled, I think Hastings public would be proud.

LINEHAN: OK.

JEFF SCHNEIDER: And I think you would say that as well.

LINEHAN: Now I've been to Hastings. It's very impressive. It has some great schools and do a lot with kids. I understand that, especially with your reading. Senator Groene.

GROENE: Whenever I've looked at this problem, I got my outliers. You're on one end, along with the Schuyler, South Sioux; the other end is the Elgin, the-- down at 30 mills and Humphrey's down at 30 mills where nobody is complaining about their property taxes there. They shouldn't be. So when you're trying to fix this thing, it's hard to do and catch both outliers. If I can get it down to five on one end and five on the other, we're doing pretty good. But it isn't a simple fix.

JEFF SCHNEIDER: I agree.

GROENE: Thank you.

LINEHAN: Thank you very much. Anybody else? I'm sorry. Thank you. And for going home tonight, be safe.

JEFF SCHNEIDER: Thank you.

LINEHAN: You're welcome.

JINA RAGLAND: Good evening, Chair Linehan and members of the Revenue Committee. For the purposes of brevity, I think you've got my full testimony coming around. I just want to briefly talk

a little bit about the concerns that AARP has with the proposal for LB497. AARP Nebraska believes that LB497 contains a number of provisions consistent with our organization's goals of providing targeted property tax relief to lower and middle income Nebraskans, broadening our state's tax base to include certain services and diversifying Nebraska's educational funding sources. Overall, we support the bill and thank Senator Friesen for his tireless efforts on this issue. At the same time, AARP Nebraska believes that any tax increases should take into account the limited ability of low-income individuals to afford necessary services. To that end, we're concerned with the bill's tax on groceries. An increased sales tax on something as essential as food is onerous for older and lower income individuals and families who may already be struggling to meet their daily needs. Food is a basic need for all of us. Compared with other goods, families have less options for cutting this grocery cost while still providing a nutritious meal. This increase would require them to choose between the purchase of food and other basic necessities, such as prescription drugs or heat. A grocery tax could impact the quality, variety, and amount of food Nebraskan families can afford to put on the table. We talked a little bit about food insecurity. The average Nebraskan that's 60 and older is 13.9 percent and it's 10 percent for those that are 50 to 59. AARP respectfully requests

that you consider amending LB497 so the sales tax exemption on groceries is not eliminated. In the alternative, we would ask that you explore ways to ameliorate the impact of this tax on low-income individuals and households, perhaps through a tax credit or a refund. We certainly concur property tax reform is critical and we do support the efforts. And at this time I would be happy to answer any questions.

LINEHAN: Thank you. Are there questions from the committee?
Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Can you tell me, do you have-- do you keep statistics on how-- I mean a lot of your members are low, moderate income.

JINA RAGLAND: Senator Kolterman, we don't actually have statistics on their-- unless they provide that information we don't have-- I don't. I can't tell you by member what their income is.

KOLTERMAN: I just wondered if you had anything about homestead exemption, what, you know, what percentage of your members.
[INAUDIBLE].

JINA RAGLAND: I don't have that here today, but I think we can probably find that for you and get that information back to you. It's higher, I think, than you would be-- expect.

KOLTERMAN: So they're getting a property tax relief as well as--

JINA RAGLAND: Correct.

KOLTERMAN: --you're saying now we don't want a charge for food.

JINA RAGLAND: Right. And again, you know, we're looking across the spectrum 50 to 64, even beyond that. But I think the-- the relevance is, as the populate-- population is aging, especially in our rural communities, the access to those services. A lot of people, they age in place. And so by providing that, those best ways and not putting them over that food insecurity level, to remain in their home is critical to look at that as well. And their incomes are limited.

KOLTERMAN: Thank you.

JINA RAGLAND: Thank you.

LINEHAN: Other questions from the committee? Thank you very much for being here. Next opponent. Are we out?

KOLTERMAN: Neutral.

CRAWFORD: Neutral.

_____ : Neutral.

LINEHAN: Neutral. Didn't you want to be neutral?

GREGORY LAUBY: Maybe. Will I get to testify? [LAUGHTER]

LINEHAN: Please.

KOLTERMAN: Today.

GREGORY LAUBY: I better get ready.

LINEHAN: I'm sorry to point.

GREGORY LAUBY: Thank you, Senator Linehan. My name is Gregory C. Lauby, G-r-e-g-o-r-y, C. as in Christian, L-a-u-b-y. I-- I salute you on your stamina. I would like to testify on all three bills, LB314, LB497, and LB677, in the neutral. I don't tend to address any of the provisions of-- of any of the three bills. I really came here to try and stress the need for property tax reform as quickly as possible. But, as I understand it, you started this hearing at 12:30 and it's nearly 9:00 p.m. now. I think you've heard all you need to hear and I doubt that I can add anything. I did, in my statement, written statement I provided, give you some bankruptcy figures from farms in the Midwest. I hope you will realize that not only are there formal

bankruptcies that go through court proceedings, there are also informal bankruptcies where farmers, for-- in one fashion or another, stop farming, and that can result in the transfer of the land title. As far as the procrastination or-- or for a cost to the nation that I tried to do about what some of those consequences could be, they're certainly more severe than just simply losing farm families in a community. The consolidation of land that can happen in-- into out-of-state and even foreign ownership can have severe and-- and serious consequences for the entirety of the state. If there is one thing that I would like you to take from my statement it is that no matter how long it has taken us to get to the abyss Nebraska agriculture now faces, it needs to be relief given this year. And I'm-- I am not smart enough to know how to do that and I hope you can find it. But I think it's critical, if we're going to preserve the character of Nebraska, that we find a way. Thank you very much.

LINEHAN: Thank you very much for being here, appreciate it. Any questions from the committee? Senator Groene.

GROENE: Do you know it's pretty hard to do it this year, even whatever we do with revenues we pass, unless we put an emergency clause on it, if you can get 30 votes for an emergency clause on something like this, tax increases? So we're talking 90 days after the session, September 1. So no bet-- what anybody

promises you, you got September 1 before the taxes go into place. They start coming in October, "Novem"-- maybe the first quarter of sales tax are reported. We're looking a year out before the revenues are reliable. So I don't know how anybody can promise you next year-- this year. I mean I want to.

GREGORY LAUBY: I-- I haven't received a promise, Senator, from anybody,--

GROENE: And I've been buying lottery tickets--

GREGORY LAUBY: --but--

GROENE: --and a--

GREGORY LAUBY: --but--

GROENE: --but it's almost impossible to guarantee it this year.

GREGORY LAUBY: What-- what I can say, and-- and I don't argue with what you're telling me, but what I can say is farmers and ranchers are going in and-- and visiting with their banker about how they can possibly get operating funds for this coming spring. And-- and that's the situation you're faced with. I don't know the answer of how [INAUDIBLE].

GROENE: Agriculture knows I'm a friend, but I'm also a realist.

GREGORY LAUBY: Right.

GROENE: I'm the banker who says, I don't care if you lost \$500 a head last year, you're selling them. But we're trying not to make it-- but we can't-- you got to-- you're going to have to [INAUDIBLE] one more year with the Property Tax Credit Fund probably. I mean then-- then we can do good things.

GREGORY LAUBY: Right.

GROENE: But we got to get it passed.

GREGORY LAUBY: Right. I certainly don't believe that this Legislature is going to be Santa Claus. But if you can do something to give hope, even, you know, I have a wonderful story about a farmer trying to get a calculator to work and he held it up to the light and it finally start working. Somebody else in the room said, well, that's pretty good. He says, oh, don't worry about it, we're used to operating on just a ray of hope.

LINEHAN: Very good. Thank you. Seeing no--

GREGORY LAUBY: Thank you.

LINEHAN: --more questions, thank you for being here. OK. So that was neutral. So we go back to proponents? Proponents. How many

left-- do we have left to testify on this on this, on this bill?

OK, two more, that's good.

CARL GROTELUESCHEN: Good evening, Senators. I appreciate the opportunity to be here this-- tonight to-- to address you. My name is Carl Grotelueschen, C-a-r-l G-r-o-t-e-l-u-e-s-c-h-e-n. I reside in Schuyler, Nebraska. I am a farmer but I am here tonight also as the chairman of the Board of Commissioners for Colfax County.

LINEHAN: OK.

CARL GROTELUESCHEN: The one thing that I'd like to address the committee on tonight is-- is the situations that I hear a lot of having just recently been elected to the Board of Commissioners and that, that scenario is-- is from retired persons that are running up against these huge real estate tax bills to the point that they feel like it's undermining their ability to sustain their desired lifestyle. I really feel like we owe it to the retired citizens that have worked hard to get to that point in their life to-- to be responsible and to fund our-- fund our school districts in a manner that-- that these people can live a good life. I feel that this situation puts a tremendous amount of undue pressure around these individuals. Some are faced with selling farm real estate. A lot of this farm really real estate

has sentimental value. And then with a-- in a forced sale it comes with a huge tax burden in the way of capital gains to the state and to the federal government. As a county commissioner, I want to do my part to represent these persons at the state legislative level. I-- I-- I know that-- that this issue has to be addressed at this level. As I listen to the testimony this afternoon, we all look for ways to fund all these goods and services that the citizens of-- of Nebraska love and demand of the system. I guess I challenge local taxing entities, including schools, to-- to rein in their spending, look outside the box a little bit and be responsible. If we ask for-- if we ask for the Legislature to help us to reduce this, we need to control ourselves and not just run those rates right back up. I applaud you for-- for the efforts you make to solve this complex issue. As I leave this hearing tonight, I encourage you to support LB497. Thank you.

LINEHAN: Thank you very much for being here. Thank you for your service as county commissioner. Questions from-- ? We appreciate your service. Thank you.

CARL GROTELUESCHEN: Thank you.

LINEHAN: Thanks. Other people wishing to testify, proponents.

JASON PERDUE: Good evening. I'm Jason Perdue, J-a-s-o-n P-e-r-d-u-e, from York, Nebraska. And I apologize that I'm not as prepared as I would like to be to sit in front of you tonight, but I had no intentions of being here. I started my day in Sioux Falls, South Dakota; went to Iowa to have a meeting; ran home to the York-Waco area to fix a water line in our chicken barn that my wife couldn't fix on her own; and now I'm back here. So I bring that up because, you see, I can't be fully invested in the farm right now. And I know you've heard lots of testimony today as I was driving, listening to it on the live stream, and unfortunately we don't have the opportunity to hire somebody new right now in the family farm. And as much as we'd like to be involved, the property taxes are an issue holding us back from me and my wife becoming more involved. On a modest farm in York County with two brothers in the farming operation, which would be my wife's dad and uncle, the property taxes alone, if we could have even a 50 percent reduction, it would nearly pay a salary for us to come back. So while I'm not going to blame property taxes as the only reason we can't be in-- involved currently, it is a big hurdle for us to come back. And as we talked about LB497, I want to thank everybody, especially Senator Friesen, for their time on that because I think it does provide a lot of fixes to improve the situation. And one of those is the inequity in how schools are funded. Just to try to

bring some perspective, and I apologize, these are just numbers that I ran very quickly while I was sitting out here in the audience, but between a quarter that one brother owns "verse" the other brother, the 80s are split: one in a school district with a 49-cent tax levy, the other in a school district with \$1.17 levy-- again, 80s in the same quarter, farmed together. And when you add up even on a-- on a good yield year, that's a difference of 23 cents per bushel of production in increased property taxes, and that's on a good year. As-- as I'm running out of time here, I would say that I know the senators are not wanting to pick winners and losers, but I would say that the way we fund schools currently has already picked winners and losers. My father-in-law happens to be the loser right now. I also believe that there are school districts that are winners and losers. And if we can fund our education in a more equitable way, which I believe LB497 does help do, it will benefit the state in the long run. Thank you.

LINEHAN: Thank you very much for being here, Mr. Perdue.

Questions? Senator Groene.

GROENE: What are those two school districts, York and-- ?

JASON PERDUE: Centennial.

GROENE: [INAUDIBLE].

LINEHAN: Thank you. Other questions? So York's at the \$1.17 and Centennial's at 49 cents.

JASON PERDUE: That's correct.

LINEHAN: How far is it between York and Centennial school districts?

JASON PERDUE: Between the districts or the schools themselves?

LINEHAN: The schools themselves.

JASON PERDUE: The schools themselves would be within--

LINEHAN: Obviously, the districts are right next to each other.

JASON PERDUE: --within 17 miles.

LINEHAN: Seventeen miles. OK.

KOLTERMAN: Twelve, fifteen miles.

JASON PERDUE: Yeah.

LINEHAN: OK. Other questions?

KOLTERMAN: But--

LINEHAN: Yes, Senator Kolterman.

KOLTERMAN: --how did that-- is there a road between those two
80s?

JASON PERDUE: There is not.

KOLTERMAN: So that did the-- did the line just happen to break
half in Centennial and half in [INAUDIBLE]--

JASON PERDUE: So-- so years ago--

KOLTERMAN: --York?

JASON PERDUE: --before either of them were the owners and back
before property taxes were so inequitable, there was an 80 that
was separate owners and was opted into--

KOLTERMAN: OK.

JASON PERDUE: --the district.

KOLTERMAN: Yeah.

JASON PERDUE: Boy, were they smart to-- to do that.

KOLTERMAN: But it's not really-- it's not really a lot different
than somebody that's got a quarter here and a quarter across the
road.

JASON PERDUE: Correct. It's--

KOLTERMAN: Same thing.

JASON PERDUE: That's correct. You know, and-- and as you're well aware, we've put up a chicken barn and I touted how this chicken barn was a community project and talked about the increased property taxes that we were gonna be able to bring to the area. However, it went in a certain land base because it was half the property taxes.

LINEHAN: That is, I mean that's-- thank you for-- I'm sorry, are you done?

KOLTERMAN: No. I-- I-- I assume it went into the Centennial district.

JASON PERDUE: It did, one, because that's what was available, and two, because financially it made sense.

KOLTERMAN: Yeah.

LINEHAN: Thank you, Senator Kolterman. And just to kind of expand on that, so even if it would save money, some smaller schools, where their levy is 49 cents or 60 cents and they could probably save money per student, they're not going to merge with the school down the road that's at \$1.05, are they?

JASON PERDUE: It-- no, they-- they would not choose to do that.

LINEHAN: Because--

JASON PERDUE: And I-- and I was trying to look up actually. So I am-- I'm a transplant from Illinois actually and I'm trying to find the basis on it but I was thinking we were one of the first court-ordered school consolidations in Illinois.

LINEHAN: Well, maybe we can figure out a way not to do it by order.

JASON PERDUE: That would be wonderful if you could work on that.

LINEHAN: But the difference in levies, there's-- . Thank you very much for being here.

JASON PERDUE: Thank you for--

LINEHAN: Drive safe--

JASON PERDUE: --all your time this evening.

LINEHAN: Stay home-- safely get home. Other-- other people, proponents. Senator Wayne, are you here-- did you lose your way home or-- ? Are there other proponents or opponents? Thank you very much. Thank you all for being here. Senator Friesen, would you like to close? And we'll figure out something else here.

FRIESEN: Those chairs are really uncomfortable. Thank you, Chairwoman Linehan. I'm going to, you know, it's been a long testimony and I'm going to try and cover some of the issues. When I handed out some papers when I started, I-- I forgot to mention that there is a-- an amendment, and those were technical changes to dates of implementation. And I think, you know, and we've had a disagreement between OpenSky's analysis and-- and Jay Rempe doing it, and we think those date changes change the technical analysis that show that some school districts lose at the beginning, because of the restored 409 cuts and the timing of implementation. I think the amendment fixes some of those things. I'm not going to say it fixes them all. But it does address some of those changes as the bill is currently written where they showed those school districts lost money. I-- I don't think that happens with the changes in the implementation dates.

LINEHAN: OK.

FRIESEN: But we'll have to-- we'll have to explore that further. But that, that was what we thought changed some of that. So the food tax, you know, and what I heard was \$504 annually, one of the thoughts was a rebate or, to me, we could implement a-- the Earned Income Tax Credit. You could do that a year early and implement the sales tax on food a year later. They always talked about, you know, that people have to lay out that money and they

wait a year for their money back, so there's ways of addressing it, either through a credit or-- or some other ways. But I think in the end a sales tax on food does, I think, address a lot of different issues and they can be addressed with the poor or the re-- you know, I-- I think it could be addressed through a rebate of some sort. It does not change and needs formula at all. It's not addressed in there. So I mean English language learners and all that, it's-- nothing's changed. That-- that is-- stays exactly the same as it was. It was mentioned about Kansas, Kansas taxes their ag land at 30 percent of value. But I don't know how they go about setting their value. I just know their taxes are a lot less per acre, but they-- they value-- they tax it at 30 percent of the assessed value. But they also tax commercial and residential at different rates too. So I mean it's-- you can find a lot of different, different ways at which they do it. One of the things, I mean you when you listen, and between businesses and when we want to put a-- take away a sales tax exemption or anything else, I mean, those-- those costs can-- they're-- they're always borne by the consumer. It's not the business. And-- and over and over we hear how it's going to damage the business. And I think as consumers we've shown over time that we don't change our buying habits just because of a sales tax. And that's why when-- you when you talk to people and you ask them where revenue should be raised, it's usually raise

the sales tax. And-- and-- and people feel they have a choice of whether or not they buy those things and they, you know, they-- they are in control. Generally, they don't change their buying habits. I mean we've been through this a lot of different ways. But when you look at agriculture and you look at the ag land, and I think one of the testifiers was talking about the bare ag land, and you know when you-- if you look at it as a business it is an input cost almost, because without land you can't have crops, you can't raise livestock. There is no-- so maybe-- maybe that's the aspect that we're looking at it a bit as an input and you don't tax inputs. But local control and the state aid, and I think we all recognize that the local school boards no longer have much local control. And I think that's one thing about this bill that on the bigger picture it-- it puts more of the burden on the state. So when we pass bills here and we force local school districts to do things or implement things, it's going to have a fiscal note. It will impact us. It'll raise that cost to those school districts and we'll have a fiscal note and then we'll have to decide do we want to pick up 50 percent of that cost. So-- and-- and down the road, as anyone who's used any kind of other tax program or federal programs or anything else, when you start taking money from a different source there's going to be strings attached. And so I would envision that once-- once we are giving schools at least 50 percent of their basic

funding, I would say that we have the right then to start dictating things and maybe more cost controls. But right now, when you're not giving any state aid to some of these schools, why would you tell them you have to implement controls? You're not giving them any money. It is local. But again, with the-- with the school boards and-- and the negotiations on labor and the CIR, there-- there is no school board willing to take those negotiations to the CIR because it costs a lot of money and they lose. And so, in the end, they have no control. Health insurance costs, we have no control over that; we just pay it. And so those costs are 80 percent of the cost of the school district anymore is labor. So I-- I don't see that that-- that-- I don't know, the local control issue is pretty well gone. We dictate everything about it. You know, and housing, this is property tax relief for everybody. How we do the shift around here yet, I mean there's winners and loser, just like there are all the time. There's outliers. One of the school districts in my legislative district gets no state aid under this bill. It is the only school in the state that gets zero, that's Grand Island Northwest. Because they already receive well over 50 percent of their basic funding, they have about 75 or 80 percent option students. And so they're-- they're getting a chunk of money there. They're an outlier that I-- I don't know how we deal with it. But there is, you know, there needs to be something done at

the local level there and-- and we're working on some options. But it's just, you know, it turns out and when I first saw it, it was just like zero. They were the only school district in the state not to get some state aid out of this bill.

LINEHAN: But they get a lot of state money,--

FRIESEN: Yes, they do. And that-- that's the-- that--

LINEHAN: --not to leave the audience in confusion here.

FRIESEN: That's the point here is there are schools that receive over 100 percent of basic funding.

LINEHAN: Right.

FRIESEN: And there are schools that receive less than 1 percent of basic funding.

LINEHAN: Yeah.

FRIESEN: That's what this bill is trying to address is bring that gap closer together. And I know we have levy discrepancies from a dollar up here to 40-some cents down here. But this bill actually does bring that gap narrower. It still doesn't maybe get it to where it belongs. You're still going to have those discrepancies, but it does narrow it. And we also have to say that housing is also a basic need. And-- and if we don't give

property tax relief to everybody, I mean, we all know we have young people that want to move back to the state and-- and the cost anymore. We talked about work force housing and, you know, on one end we're subsidizing work force housing and on the other end we tax the crap out of it to fund the school. It's just a big, giant money shuffle. Why are we offering incentives to builders so they can sell a cheaper home and at the same time we slap property taxes on it to help fund the school district? We could do a lot simpler, shorter route by just changing how we fund schools. Lower the property taxes on those homes and maybe that work place housing would be affordable. So again, I think we have our work cut out for us. I am willing to look at all different revenue sources. I mean I've said that from the beginning and nothing's changed. Everything is on the table. And you've seen through the charts the different school districts and the percentage they get. It varies across the state as much as you could probably vary it. And it's not going to be an easy issue. But if we don't address it soon-- we keep talking about the population loss from rural Nebraska. And-- and, you know, I-- I-- I think there's schools that need to be consolidated. I-- but again, there's also some schools maybe we have to look at the-- the cost-benefit ratio of consolidation there. But when you want to talk about saving money on property taxes, I mean we should look at consolidating county services. There's lots of

ways we can look at that. And I'm talking sometimes about the big urban districts that could consolidate. Where they have two police forces now, they could go to one. There's-- so we want to look at savings and we can look at that. But there's-- and there's mergers could be done from counties in the rural areas. With technology these days, there's savings to be made. I hear the testimony about they don't like the caps. And Senator Groene says it's no cap; it's nothing. So I'm not-- I'm confused now and I-- I-- I'm-- 'cause 175 of the school districts--

LINEHAN: It's probably different languages.

FRIESEN: -- a 100 and-- 175 of the school districts could raise their levy, supposedly, because they're not at the \$1.05. And they're not getting state aid really. And so either they're responsible and I can just say, well, let's get rid of the caps then, what's the problem? They haven't-- they haven't taken advantage of us now yet; why would they start now? So let's pull the caps off. They come in and we keep hearing over and over their increases have been in that 1.5, 2 percent, 2.5 unless something happens. And yet the Governor wants to put on 3 percent cap. That's not property tax relief. They've been operating underneath that, supposedly, for a long time. So let's-- and there's a lot of money have been spent and it's where we're spending it and where those controls maybe need to

be and where they don't need to be. But it's going to be a challenge. And I-- and I hope everybody is willing to work really hard on this because I think time is of the essence. And I-- I know we probably can't get something done as fast as it needs to be done. But that doesn't mean we can put it off another year because that's two years down the road then. And so I think something has to be passed this year. I really do. And I-- people talk about the grand tax bargain of looking at our whole tax proposal. If we can get it done this year that would be great, but I don't-- I don't see it happening yet. But we've still got some time and I think if we really put our nose to the grindstone, we might be able to get it done.

LINEHAN: Thank you,--

FRIESEN: Thank you.

LINEHAN: --Senator Friesen. Do we any questions from the committee? Senator Groene.

GROENE: The grocery tax, it's not broken out of that \$124 million or-- or \$316 million. This just says General Fund sales tax. Do you how, when you guys did your-- ran your numbers, how much of that came from the groceries?

FRIESEN: No. No, I didn't. I don't.

GROENE: You didn't do that?

FRIESEN: I-- no.

GROENE: So if you--

FRIESEN: Don't know that. If I can find out, I'll-- I'll get that to you.

GROENE: I think, Senator Friesen, when they said they didn't like the caps is the same, they didn't like my bill. They don't like the cap or the property tax asking because they don't want to rely on-- on the state to fund education.

FRIESEN: Well, we have been an unreliable funding source. I-- I-- I don't blame them in a way.

GROENE: Well, we've--

FRIESEN: I mean, if you look at the schools, and I remember that 10-15 years ago where schools would lose or gain a million and a half two million dollars every other year, it-- it is like a yo-yo. I don't see how they could even budget back then. So I mean we haven't been reliable but unless we set something in place that at least schools get some level of guaranteed state aid, we're never going to be there.

GROENE: As policymakers, we have been reliable. We've made sure the school were funded and it increased all the time. That just-- we just changed where the source of the revenue came from.

FRIESEN: Yes. We always tried to save--

GROENE: [INAUDIBLE] reliable.

FRIESEN: We tried to save our budget.

GROENE: From the Supreme Court, we-- we can push it on the property taxpayer, and this body has done that. We have funded schools. We just shifted it.

FRIESEN: We funded some schools.

GROENE: No, we funded it. We--

LINEHAN: OK.

GROENE: --told school districts to fund it, [LAUGH] anyway, which we're on the same side, Curt.

LINEHAN: Thank you, Senator Groene. Senator Kolterman, did you have a question?

KOLTERMAN: I was just going to suggest we move on to Senator Groene's bill.

LINEHAN: OK. Think maybe we should? OK. Wait, we got a read the-- we got-- I'm going to try to read really fast and I don't care if I don't say-- I mean I do care but I'm going to do my best.

GROENE: Read slow, I'm headed to the rest room quick.

LINEHAN: I have read proponents for LB497: Dick Goertzen, Beatrice; Larry Scherer; Rod Hollman, Martell; Kevin Cooksley, Nebraska State Grange; Sara Crumrine, O'Neill; Paul Nelson, O'Neill; Margie Magnuson, Omaha; Scott Brettmann, American Society of Farm Managers and Rural Appraisers; Henry Beel, Johnstown; David Haumont, Haumont Ranch Inc.; Matt Haumont, Haumont Ranch; David Crouse, Research Nebraska Inc.; Nick Faustman, Cancer Action Network; Brian Krannawitter, American Heart Association. Those were the proponents. Opponents: Mitch Muhs, Omaha; David Fudge, Nebraska Travel Association; Pamela McDonald, Omaha; Sarah Jensen, Omaha-- Greater Omaha NARI; Lora VanEtten, Lincoln; Ben Stone, Simple Wellness Massage; Becky Ohlson, Lincoln; Cyndonna Tefft, Crossroads-- Crossroads Massage Clinic; Melissa Sharp, Associated Counseling Group; Deanna Larson, Lincoln; Michael Sothan, Main Street Beatrice; Ted Powers, Anheuser-Busch; Kim Johnson, Lincoln; Amy Will-- Williams, Lincoln; Liz Standish, Lincoln Public Schools; Jim Engelbart, Nebraska Craft Brewers Guild; Deborah Levitov, Lincoln; Mo Neal, Lincoln; Brook-- Brooklynne Rosado, La Vista;

Gina Frank; Joseph Knutson, Knutson Construction Services;
Jessica Shelburn, Americans for Prosperity; Joey Alder, Holland
Children's Movement; Donna Roller; April Jorgensen; Dustin
Antonello, Lincoln Independent Business Association; Sidney
Butler, Lincoln; Todd Sanwick, Sanwick Remodeling Contractors,
Inc.; Hannah Young, Nonprofit Association of Midlands; Jacob
Robison, Nebraska Hope Growers Association; Scott Strain, Kros
Strain Brewing Company; Lynn Johnson, Lincoln Parks and
Recreation; Richard and Amy Hilske, Cellar 426 Winery; Renata
MacAlpine, Ord; Bill Sauter, OHARCO; Melissa Sharp, Associated
Counseling Group; Jordan Rasmussen, Center for Rural Affairs;
Kim Kavulak, Nebraska Brewing Company; James Watson, Pint Nine
Brewing; Gerald Homp, BottleRocket Brewing Company; Jerry--
Jason Berry, BottleRocket Brewing; Ryan Koch, BottleRocket
Brewing; Dallas Archer, Upstream Brewing; Anne Klute, Nebraska
Cornhusker Chapter Associated Builders and Contractors; Jenny
Goos, Omaha; Jim Engelbart, Empyrean Brewing Company; Joe
Margheim, Flyover Brewing; Andrea Margheim, Flyover Brewing;
Peter Meyer, Flyover Brewing; Bill Baburek, Infusion Brewing;
Tony Thomas, Farnam House Brewing; Brian Podwinski, Blue Blood
Brewing; Guy Jukes, Jukes Ale Works; Patrick Mejstrik, Valley,
that's in my district; Tom Wilmoth, Zipline Brewing; Lynne
Friedewald, Hastings; Kelsey Oliver, Lincoln; Lindsey Clements,
Vis Major Brewing Company; Pamela McDonald, didn't I read her

name once, Omaha; Anjanette Bonham, Adams County Convention and Visitors; Lynn Nejezchleb, Fairfield Opera House Brewery; Megan Arrington-Williams, First Street Brewing; Virgil Harden, Grand Island Public Schools; Joseph Couch, Lincoln; John Fahrer, Scriptown Brewing Company; Britton Bailey, Lincoln; Rodney Keim, Brush Creek Brewing; Barbara Bailey, Lincoln; Jeff Hadden, Soldier 6 Valley Spirits; Shannon Olberding, Atkinson Community Foundation; Zach Triemert, Omaha's Brickway Brewery; Corey Stutte, Mayor of Hastings; Eric Lyden, SARO Cider; Nicholas Simonson, O'Neill; Richard Hagedorn, Soldier Valley Spirits; Janet Nuss, Lincoln; Kim and Todd Baliman, Kimball; Trevor Schaben, Thunderhead Brewing; Dana Medeiros; Nick Benes, Norfolk; Debbie and Roger Thomson, Lincoln; Jim Stutzman, Larry [SIC] Horse Brewing; Michael Nelsen; Wendy Kraus, Holdrege; Jeff Hanson, Green Flash Brewing; Greg Pracek, Johnnie Byrd Brewing Company; Christina Bradley, Omaha; Jason Varga, Cause Collective; Jim Anciaux, Stone Hollow Brewing; Christine Funk, Center for People in Need; Darby Paxton, Holt County Economic Development; April Naab, Hair of the Dog-- Hair of the Dog, Aurora; Rick Chandler, JT International; Anheuser-Busch Companies; MillerCoors; Johnson Brothers of Nebraska; Associated Beverage Distributors of Nebraska; Nebraska Liquor Wholesalers; Nebraska Craft Brewers Guild; Gina Frank; Joseph Knutson, Knutson Construction; Jessica Shelburn-- I read that already,

right, sorry; Nebraska Licensed Beverage Association; American Council of Engineering Companies of Nebraska; American Institute of Architects, Nebraska Chapter; American Massage Therapy Association; Associated General Contractors, Nebraska Building Chapter; Durham Museum; Greater Omaha Chamber; Iowa/Nebraska Equipment Dealers Association; Home Builders of Lincoln; Metro Omaha Home Builders; Lincoln Chamber of Commerce; Lincoln Children's Zoo; Nebraska Association of Commercial Property Owners; National Federation of Independent Business; Nebraska Association of Trial Attorneys; Nebraska Bankers Association; Nebraska Beverage Association; Nebraska Chamber of Commerce and Industry; Nebraska Licensed Beverage Association; Nebraska New Car and Truck Dealers Association; Nebraska Petroleum Marketers and Convenience Stores Association; Nebraska Realtors Association; Nebraska Restaurant Association; Nebraska Retail Federation; Nebraska Society of CPAs; Nebraska Telecommunications Association; Nebraska Transportation Association; Nebraska Travel Association; Nebraska Veterinary Medical Association; Omaha's Henry Doorly Zoo and Aquarium; Renewable Fuels Nebraska; Self-Storage Association; Speedway Motors. Nobody was neutral. Thank you. Senator Groene, hi.

GROENE: Hello. I was just checking something.

LINEHAN: Yep. OK. Open the hearing on LB677.

GROENE: Thank you.

LINEHAN: Be short this time.

GROENE: I'm going to be short. See how everybody likes my bill?
There isn't anybody here.

LINEHAN: Nobody cares. [LAUGHTER]

GROENE: It's nice to introduce bills where you don't say how
you're going to fund them, see, till later. But LB66-- LB677 is
just a remake of LB640 that I had the last two years.

LINEHAN: OK.

GROENE: I was told by late in the bill dropping session by some
of the ag groups that we kind of liked that last year. Why don't
you drop it? Aren't you gonna drop it again? I made an awful lot
of improvements to it. Two years goes Senator Friesen used it as
a priority, last year I did. It had close to 30 votes. We had
enough to pass it last year it was on the floor but not enough
Senator Baker's filibuster. But it uses some of them-- I'll just
go through it quick, what it does, to remind everybody. We use a
percentage too but it's not on valuations. LB677 adds to TEEOSA
formula 55 percent as a limiting factor as to the portion that
property tax can be of the total school district's revenues,
state, federal, and local. We use all three. It eliminates the

effect of the artificial valuation increases in local school funding. We don't have to mess-- mess with the-- the valuation because we limit how many dollars they can-- any school district can fund their school with of the total amount. After calculation of the 55 percent factor, school districts receive 75 percent of the difference. If they wish to recuperate all or part of the remaining 25 percent, the school board must vote on it each budget cycle and raise their levy to recoup the revenue necessary to fund their budget. OpenSky, I think what they were talking about is this. It's a hundred-- what-- the 55 percent, if you've got a hundred dollars and you fund for-- \$55 and the state has to do \$45. The state will fund 75 percent of that. The other 25 percent, it goes back to the local school district and they can decide. This is where you get local control, local-- local cost savings is the local school board can say, do we need all 25 percent of that what's left? So \$45, you know 25 percent of that would normally be what, about ten bucks. Anyway, they-- they may say we only need seven of it or we need all ten, and then by two-thirds of the board they can-- they can raise their levy to recuperate that, to recoup that. So, but it does not affect their budget authority. So in other words, unlike what I talked about later, the next year's 55 percent isn't based on what they raised last year. It's on their-- their needs. So they can go lower. If the next year they need to go higher, they can

go higher. But it puts a factor in where the local school board says, no, superintendent, I don't think we need that much extra money. We got this state money now so we're-- we'll take only five bucks of that ten. It also lowers the maximum levy to .987 from the \$1.05, and the LER would be .937. That, two reasons: It gives the guy in Hastings the property tax relief because they're screaming too, as you heard the county commissioner from Schuyler. I wasn't talking about farmers there. He was talking about my brother and a bunch of my relatives that live in Schuyler have a huge tax burden, like the farmers, because they're at a dollar seven or eight or something on their schools. So anyway, but that gives those people property tax relief. The 55 percent gives the-- the farmer relief in the unequalized districts and then it makes an adjustment there. Here's that problem again with these option enrollment schools, where they would lose funding. So it makes an-- an adjustment of .63 cents on their option money so that they're made whole. And it's-- it's hard to explain but I've got spread-- did you pass out the spreadsheet? I didn't. Sorry. This is a spreadsheet of what it would look like. This is a spreadsheet as if it was this year, next year is '19-20, which it would be in effect. All right? So it does that. And then what I'm doing is-- is using the Property Tax Credit Fund as seed money. As Senator Friesen said and I said earlier, we have to get this in place because

there's that year lag. We have a year lag of any receipts, any revenues that you generate with new taxation or-- or-- before we receive them. But you can't wait two years because we're on a biennium budget. You put it into effect the second year after the revenues have started showing up. But you need it in place the-- a year in advance so that it's ready to roll when the revenues show up. But-- but it would use the Property Tax Credit Fund. We have to because we have to fund it with something. I mean this puts it in place the first year, but we're using the Property Tax Credit Fund. The following year, as it grows, we fund-- we-- and both of my bills, LB695, I have come to this conclusion. You never get rid of the Property Tax Credit Fund because we have to track this money. When we did it in the '90s, when we did it in the past, they say we're raising income tax, raising sales tax when we get property tax relief. Well, guess what happened. When you put that money in the General Fund it's a big black hole and it disappears, goes to other issues. Pretty soon it didn't-- it never filtered down and got to the property tax relief. So if we do the funding increases, the tax revenue increases, Property Tax Credit Fund, you-- you put that into the Property Tax Credit Fund and it's a direct-- direct from there to the Department of Education to fund LB677 or LB695. There's no leakage. There's no shrink. As a business person would tell you, the money's accounted for and directly to property tax

relief. Plus, you don't get rid of a good thing if-- if-- if you always have it in place, the Property Tax Credit Fund. If we have extra funds, you could dump it in there and it could be-- the extra amount could go out as it does now on a valuation basis, total state valuation basis. The, as I said, in the statute, the Legislature will be required to appropriate to the Property Tax Credit Fund the funds necessary to enact LB677. LB677 makes no changes to the needs side of the formula. Loss of taxing authority seems to be the biggest concern. You know, we got the people who don't want to pay, have something they have taxes on the education establishment side. No matter what we do, Senator Friesen's or ours, they do not want to lose taxing authority because, as I was told this story over and over again, an old, grizzled superintendent told me, Groene, you don't understand, we've got that taxpayer by the neck, up against the county courthouse wall, and he has to pay property taxes or he-- we sell his farm. The state isn't reliable for their funding, but the property taxpayer is. So they don't want to lose one cent of taxing authority. But to give property tax relief, we're going to have to do it. The attached spreadsheet, as you see, you can look at the school districts. If you want to see what the-- the difference, the second column from the-- from the right, that would be what-- how much more state aid each school district would get, which goes directly back to property tax

relief. Because if you limit how many-- how much funds they can generate from property taxes by limiting it at 55 percent, the levy is forced down 'cause they can't-- they're not allowed to levy any more than that, what that 55 percent is. So the levy will have to go down. It would be direct property tax relief. And more money comes around, you can always lower that 55 to 50, 48, but it's in place, immediate property tax relief. Problem is the farmer in Schuyler, the farmer in York. We're only giving him enough property tax relief to offset the-- and that's the same with the other bills I've heard. They're trapped unless you did lower the-- the valuation. And we could do that overall quite simply by going-- got another bill-- 75, 65. It's clean and it would give proportional property tax relief to those guys in-- the Schuylers and those areas, because, really, it doesn't help the guy in-- in Boyd County. Because if you take it from 75, 65, there's nobody to shift it to. His levy is going to go up and it's going to have to bring in the same amount of money. In a York or somebody, at least you can shift it to somebody. But that's-- and they're trapped up against the \$1.05. The Boyd County isn't. They-- they can go up to \$1.05 and they're only at 30 cents or so. So anyway, that's a lot of the semantics of it. And why I'm using the Property Tax Credit Fund, another one that doesn't grow, it's \$224 million, it keeps-- it's going to shrink. The Governor's talking about another \$51 million. Thank

God. That's another hundred two. We could get this thing going without-- we could get it going this year without-- that \$100 million plus \$224 would do it, would-- would pay it, could pay for this thing to get it started this year. And that's basically it, rehash what we did a year ago. But that 55 percent's the big thing for the-- for the farmer on total valuations, not valuations but on-- on schools, where the revenues come from. Lowering the levy helps the person in equalized districts, the Omaha, Lincolns. It's not as much as you would like but I'm a realist. We don't have-- we're gonna get \$600-800 million and we're not going to be able to. But it puts it in place and it-- and it's a start. Now, what I've also done is-- pass that-- just so we have everything on the table, I decided my LB695, a version of it, I'm offering an amendment and having a hearing here on my LB695 as an amendment into LB697 [SIC] to just change it, to just--

KOLTERMAN: You mean LB677?

GROENE: --to just-- LB677. Take my LB695 that's in Education, we all know why it won't come out, but it gives this-- this body to use that as one of the choices too.

LINEHAN: You can't do that? Why?

MARY JANE EGR EDSON: Can't amend a bill from one committee into a bill in another.

GROENE: This ain't this bill. I made enough tweaks to it that it's not that bill. It's in a new amendment.

MARY JANE EGR EDSON: [INAUDIBLE].

GROENE: I've made changes to it that it's another-- it's a different bill. It's a different amendment. It's not-- it is not word for word, not even close. I've added the-- added the-- TIF valuation into it as part of the legislation. I also made some changes on the CPI. It's a new-- it's a new ideal and a-- and I did some research on it. This is the way you should do it because it's now having a hearing. But it puts it on the table, a version of it. And you know LB695 probably-- it does things that LB677, not LB695 but the amendment does things that LB677 doesn't do and that's starts putting some cost controls on growth of spending. Doesn't cut spending; puts some cost controls on it. And it also-- it also actually gives the farmer more, more of a bang for the buck because of the-- we create foundation [INAUDIBLE], similar to LB417, Senator Friesen's bill. But it-- it based it on a per student and-- and revenues. It's-- it's reliable because I'm identifying the source of the 25 percent of the revenues, the income tax revenues and sales

tax revenues. It's an identified-- identifiable source and it's an identifiable amount, not just a guess on-- on the TEEOSA formula what-- what the funding is for the school. It ties it to revenues and not needs. So it gives direct relief to the unequalized districts. And then we lower the-- the equal-- the-- this, we, instead of being at 99 local effort rate at point, what .937 we take it all the way down to 9 on the LER.

LINEHAN: So this replaces--

GROENE: If the--

LINEHAN: It's a full [INAUDIBLE].

GROENE: --if the amendment's there.

LINEHAN: OK.

GROENE: If. If. It's a choice.

LINEHAN: OK.

GROENE: There's nothing wrong with LB677. It was hugely acceptable as a choice last year and the year-- well, we got it to the floor last year. We had 25 or 26 votes. a couple of votes on amendments. LB677 is the amendment that was adopted on the floor. It's the exact version of what LB640 was amended. Debated for three hours. I thought I had 33 votes until the lobby came

in and said you won't get elected if you vote for it, and 2 out of those 3 did not get reelected, even after the lobby threatened. But anyway, and they voted against it. But it had a lot of acceptance. It's affordable. The fiscal note on-- I'm back to LB677. I'm just giving you two--

LINEHAN: I know. I think we're getting--

GROENE: All right.

LINEHAN: I think we're all brain-- you know?

GROENE: But it--

LINEHAN: It's a lot here.

GROENE: All Right. Questions?

LINEHAN: So, yeah, questions? Senator Kolterman.

KOLTERMAN: I just want to-- I'm not-- I'm not objected to looking at this, but I think a point of order is in-- needs to be made that this should be brought at a different time than at this hearing, would be my-- I don't know if this is an amend-- is this an amendment?

GROENE: This is an amendment. It's a unique amendment. It is not the language of another bill. It's-- you're not voting on accepting it here.

KOLTERMAN: I know. I--

GROENE: Can I talk?

KOLTERMAN: --I understand and you're doing this--

GROENE: I mean it's there.

KOLTERMAN: --you're doing this for the sake of having a hearing on it,--

GROENE: Yes.

KOLTERMAN: --including it in the hearing.

GROENE: Yes.

KOLTERMAN: I just don't know if that's germane and that can be done. I think that--

GROENE: It-- it has-- it has just as much 77, which is revenue, in it as has 79, education, as Senator Friesen's bill and Senator Briese's bill could have went either way [INAUDIBLE].

KOLTERMAN: Mike, I'm not against doing this. I'm just saying I don't think this is the way to do it at this point time tonight.

GROENE: No. I'm just putting it in a record. We're not voted on it or accept it. It's why we exec on it when we all sit around. It is now follow the rules that it has been brought.

KOLTERMAN: Well, but at the same time, we won't be able to give it a fair hearing because the people haven't seen it to talk in favor or support, against it.

GROENE: Yeah, where are they?

KOLTERMAN: I'm just-- I'm just making that as a point.

LINEHAN: Well, OK.

GROENE: That happens on every committee amendment, every committee amendment.

LINEHAN: OK. Let's-- I'll take a deep breath.

GROENE: Yeah.

LINEHAN: He's not shocking me. He talked to me about this earlier today.

GROENE: And I talked to--

KOLTERMAN: Well, and again, I'm not against the concept. I'm just telling you I don't think this is the proper way to do it. We ought to get a ruling from our Speaker in that.

GROENE: I called him on it; talked to him on the floor. He said what was happening, just getting to be just discussion here, but what was happening in the past was we had some individuals taking bills out of other committees because it didn't come out and that committee was favorable to it and they were amending it into it. That, I agree, is absolutely wrong. But if you bring an amendment to the hearing and it's not another bill, you're not taking another bill and amending it in, you can offer a committee amendment as complex as you want to or you can change the word "or."

KOLTERMAN: I'm just ready [INAUDIBLE].

GROENE: Procedurally it's-- it's correct.

LINEHAN: No, and-- and I-- we're not going to make a decision tonight,--

KOLTERMAN: I understand that.

LINEHAN: --Senator Kolterman. And not--

KOLTERMAN: I understand that. I'm just saying I don't believe this is the proper way to do it.

LINEHAN: OK.

KOLTERMAN: And I have nothing against the concept of what he's trying to do--

GROENE: But I'm not saying take the whole bill. What I'm saying is when we sit down and exec on all these ideals and you want one ideal out of there, not the whole bill, it's legit now.

McCOLLISTER: Did-- did we give LB677 due process, notice and everything else?

KOLTERMAN: Absolutely.

LINEHAN: Yes.

KOLTERMAN: We have someone here to testify against it yet.

GROENE: That's fine. And they will. I mean the bill's still there, LB677. I'm just giving an option. And an awful lot of committee amendments aren't accepted when a-- when a senator brings it. But it is-- the reason they do it, it's part of the record. I'm doing it legitimate.

McCOLLISTER: I'm just a little concerned about the lack of public participation. Everybody's gone home. It's late.

LINEHAN: Well,--

GROENE: Well, that ain't my fault. Other--

LINEHAN: Shut-- whoa, whoa, whoa, whoa. I--

GROENE: Yeah. Sorry.

LINEHAN: We've been here all day so I think it'd be pretty hard to say we haven't been welcoming. We're all, except for sickness and family emergencies, still all sitting here.

McCOLLISTER: Sure.

LINEHAN: And this hearing was noticed. So I mean I don't-- I don't think-- and it is quarter till 10:00 at night. So I don't think we can say we're not willing to listen to the public.

McCOLLISTER: Oh, I agree, but the public isn't here.

_____ : They had the option to be here.

LINEHAN: That's right. I know. Yes, Senator Friesen.

GROENE: Go ahead.

FRIESEN: And this is just my--

GROENE: I guess we should ask [INAUDIBLE] questions.

FRIESEN: --this is my opinion is that we always-- we can bring amendments to fix our bills. Senator Briese bought-- brought an amendment to fix his bill but it followed the same principle of what he was doing. If I advertise, I guess, that I'm going to bring bill A and the hearing is all held based on that, and then I offer an amendment that totally guts it and changes it, I would have a problem with that. We have not had a fair hearing--

LINEHAN: OK.

FRIESEN: --and-- and it shouldn't be introduced as part of that. That's just my logic. And again I'm-- because you can dupe everybody into thinking we just had this hearing. Suddenly this amendment of-- of 50 pages can come in.

LINEHAN: But it's a little different in the sense that we're not bringing an amendment here that hasn't had an-- there's been a full hearing on-- on what he's bringing too.

FRIESEN: On what?

GROENE: On a lot of this stuff.

LINEHAN: On the amendment.

FRIESEN: Then if it's in another committee then-- then you think you can't bring it here.

LINEHAN: Well, OK.

KOLTERMAN: That's-- that's what the Speaker tells us when we have our meetings.

MARY JANE EGR EDSON: And if it introduces [INAUDIBLE].

LINEHAN: Well, let's--

GROENE: No. Bring any committee amendment you want. I am following policy.

LINEHAN: I-- we're-- we're not going to settle this, this evening.

GROENE: I mean--

LINEHAN: OK.

GROENE: --it can be stopped here. It can be--

LINEHAN: Right.

GROENE: --rejected in exec--

LINEHAN: We're not going to vote. We haven't vote--

GROENE: --because you-- you that-- for that reason. But everything I've done here is legit.

LINEHAN: OK. Let's just-- let's keep going here.

GROENE: All right. Any-- I'm done.

LINEHAN: OK. So you stay to close.

GROENE: Of course, I'm part of the committee.

LINEHAN: OK. Do we have any--

GROENE: Any questions?

LINEHAN: I think we can go with three minutes since it's been all day.

GROENE: Yeah.

LINEHAN: OK. Do we have anybody wanting to-- any proponents for LB677? Any opponents?

JASON BUCKINGHAM: Good evening.

LINEHAN: Good evening.

JASON BUCKINGHAM: I heard there was a prize for the last testifier today, so I'll pick that up when I get done with this.

LINEHAN: Well, I'm not sure you are the last one.

JASON BUCKINGHAM: I'm not very smart apparently. Good evening, Chairperson Linehan, members of Revenue Committee. My name's Jason Buckingham, J-a-s-o-n B-u-c-k-i-n-g-h-a-m. I'm the business manager at Ralston public schools. Today I also represent the Greater Nebraska Schools Association. I appreciate the opportunity to appear before you today to speak on behalf of our students, staff, and the Ralston Community. I appear before you today in opposition of LB677. Ralston public schools understands the great difficulties facing the Legislature at this time in regards to the imbalance that exists in properly funding public education in our state. The current model of funding puts a heavy burden on property tax owners and specifically on agricultural land. We'd like to see some adjustments made to the current funding mechanism, but we believe that our proposal outlined in LB677 would have a negative impact on our district. Changing the TEEOSA formula as presented in this bill is problematic for districts like ours. First, LB677 changes the maximum levy allowable from \$1.05 down to 96-- 98.7. Our district currently levies the full \$1.05 to meet our current expenses. Dropping the levy by 6.3 cent would represent a loss of about a \$1,044,980 using '19-20 figures. The bill provides for property-- does provide for property tax-- tax

relief for all districts that have a minimum of 55 percent of their general fund levy generated by-- from local taxes. Our district generates less than the 55 percent from local property taxes, thus, calling into question how our district will be able to make up the \$1,044,000 shortfall. Districts like ours have a relatively small property tax base per pupil and are at a disadvantage under LB677. Secondly, and this is just a point of clarification. You can possibly ignore this paragraph. The language in the bill as presented on the Web site was different than the statement of intent with regards to net option funding. I assume that the statement of intent language was correct in that districts that had exceeded 90 percent of their-- were under 90 percent of their preliminary state aid and option enrollment relief, would be eligible for option enrollment relief under Senator Groene's bill. Skipping ahead, currently 28 percent of our students come from outside of our district boundaries. The net option funding for us is critical. We need that piece left in so that we can continue to be a provider of school choice in our state. We feel that the reduction that already took through LB409, which reduced it to 95.5 percent, was detrimental but it did not prevent our ability to continue to offer those opportunities to different students that we're seeking a different educational opportunity. I won't go through the rest. It's late. I do appreciate all of you sitting here

and-- and you, in my opinion, don't make enough for the amount of time and the effort you put in. Ralston. Yeah, OK. So if there are any questions, I'd-- I'd be happy to answer them at this time.

LINEHAN: Thank you. Senator Kolterman.

KOLTERMAN: Yeah. Thanks for being here. So you don't rely on-- you don't get much property tax. Is that because you're landlocked?

JASON BUCKINGHAM: Yeah. Yeah, we're-- we're a district that's less than eight square miles--

KOLTERMAN: How many?

JASON BUCKINGHAM: --and we're built out in our-- in our district. There aren't-- there isn't even empty land available for us to build new homes.

KOLTERMAN: Eight square miles?

JASON BUCKINGHAM: Uh-huh. We're about 60th Street to 108th, roughly interstate to Harrison.

KOLTERMAN: Thank you.

LINEHAN: Thank you, Senator Kolterman. Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. Remind me, how many students do you have?

JASON BUCKINGHAM: We're about 3,400 if you count P-K.

LINEHAN: And 20-- oh, I'm sorry. Senate-- Senator McCollister? No, you can ask more.

McCOLLISTER: No, I-- I think I'm good.

LINEHAN: I've got several [INAUDIBLE] I've been grouchy. So 28 percent of your kids are opt-in and you're at 3,400 kids?

JASON BUCKINGHAM: Uh-huh.

LINEHAN: So that's-- 28 is very close to-- so I'm very tired. So 800 of your kids are opt-in kids?

JASON BUCKINGHAM: A little more than that. Yeah.

LINEHAN: OK, so here-- here's a question we're going--

JASON BUCKINGHAM: Uh-huh.

LINEHAN: --to face going down this road.

JASON BUCKINGHAM: Sure.

LINEHAN: How are-- how are-- because we've got some schools in rural Nebraska that have 250 to 350 kids--

JASON BUCKINGHAM: Uh-huh.

LINEHAN: --and they're 10 miles apart. They need to merge--

JASON BUCKINGHAM: OK.

LINEHAN: --because it-- I mean I know they don't want to. It kills their town, all these things.

JASON BUCKINGHAM: Uh-huh.

LINEHAN: --but it costs \$18,000 a student. So how do we, from Douglas County, when we've got Ralston, you're all-- are you-- you're in Sarpy County.

JASON BUCKINGHAM: No, we're entirely Douglas.

LINEHAN: How-- how do we say that we shouldn't have any merging in Douglas County when we expect other schools in greater Nebraska to merge for efficiencies,--

JASON BUCKINGHAM: OK.

LINEHAN: --especially when you got 25 percent of your kids don't live in your district?

JASON BUCKINGHAM: Uh-huh. So I think that's a fair question. I think that the people that end up coming to us, I'm going to answer the second part of that if I can. The people that end up

coming to us come to us for a reason. They're leaving their school district, whatever district that is, because they like the programs. They like class size. They like the school size, the opportunities that we present. We're bordered on all four sides by districts that are much, much larger than us. Some are more than double than us. Some are, I'd say, 20 times as big as what we are. Well, that's an exaggeration, about 18 times what we are. They choose us because they want the smaller size, the smaller community feel. We feel that we're at a district that is, I don't know if you could call it rightsized or not, but we're in a district where we have efficiencies that you don't have in smaller schools. But we don't have some of the "disefficiencies" that exist in some of your very, very large districts.

LINEHAN: But one of the reasons, just like other schools,--

JASON BUCKINGHAM: Uh-huh.

LINEHAN: --you know, you're not alone in doing this.

JASON BUCKINGHAM: Sure.

LINEHAN: You're not even-- probably have a-- because there's one school has 33 percent opt-in kids.

JASON BUCKINGHAM: Uh-huh.

LINEHAN: That's why you keep it efficient because you can-- you can-- you can fill the empty seats. So--so how much money do you get just for opt-in? What's your opt-in line? And I realize you're equalized so--

JASON BUCKINGHAM: Uh-huh.

LINEHAN: --if you didn't get that you'd get equalization and all that. But what is your opt-in line?

JASON BUCKINGHAM: We're projected right around \$5.3 million I think for next year. [INAUDIBLE] exactly. Give me a second here.

LINEHAN: Yes, Senator Kolterman is going to take over because--

JASON BUCKINGHAM: \$5.3-- 369 for next year.

LINEHAN: I'm sorry?

JASON BUCKINGHAM: \$5.369 million for next year.

LINEHAN: OK. Senator Kolterman.

KOLTERMAN: Just out of curiosity, OK, and again, I'm not that familiar with-- I know where Ralston's at.

JASON BUCKINGHAM: Sure.

KOLTERMAN: I don't know your boundaries and all that. So let's say you're-- you're not going to grow unless it's option enrollment.

JASON BUCKINGHAM: Correct.

KOLTERMAN: So what happens when your buildings start to deteriorate and you have to have a bond issue?

JASON BUCKINGHAM: We're right there. The last bond issue that we passed was in 2001. And we basically have done some things that have been given to us by the Legislature, things like QCPUF, BABs, ARRA funds when those have come around. We've used those to try and take on as much of our building projects as we can, but it's very, very difficult for us, particularly with the situation we have with our municipality, too, and some of the issues we have. So to answer your question, are our facilities are deteriorating. And we've gone through building studies. We've gone through, met with architecture and mechanical engineers and we know that we have some issues that are coming up soon. For us to be able to pay for those to be up on-- on par with some of our other-- some of our other neighboring districts is quite a challenge.

KOLTERMAN: So what schools-- what districts surround you? Do you have like Spring View or Platteview or [INAUDIBLE].

JASON BUCKINGHAM: We have Westside to the north, we are Millard to the west, we have Papillion-La Vista to the south, and then we have OPS to our east.

KOLTERMAN: OK. Tough situation.

LINEHAN: So-- I'm sorry?

KOLTERMAN: Just a tough situation.

LINEHAN: It's a very tough situation. Other questions? So I know Westside's done this. They've built new schools for opt-in kids.

JASON BUCKINGHAM: Uh-huh.

LINEHAN: But that is very problematic [INAUDIBLE], from a legislator's point of view. I mean-- and it's also just-- so you're up against-- what you're saying is you're up against that decision whether you're going to build new buildings for often opt-in students.

JASON BUCKINGHAM: I don't think that we're going to build new buildings. Our last new building was 1971.

LINEHAN: OK.

JASON BUCKINGHAM: So it's-- it's been a long time. We have done renovations and we have tried to keep up. Our high school

project was completed in 2004, which was a very nice building at the time it was completed. But you're talking 15 years since that renovation's been done as well.

LINEHAN: OK.

JASON BUCKINGHAM: But we-- we don't have plans on-- on expanding tremendously staff, to be quite honest with you. We're just about full as far as our capacity, our enrollment. Even if we wanted to grow it more, we're probably not able to do that.

LINEHAN: OK. Thank you for being here so late.

JASON BUCKINGHAM: Sure.

LINEHAN: Are there other questions? Thank you very much.

JASON BUCKINGHAM: And I wanted to thank all of you for having the courage to look at some other directions too. I know it's real easy to say, well, we'll just cut funding and that's the way that we're going to move towards property tax relief, which we desperately need. However, I think there are quite a few of you that understand that we can't cut our way out of this problem. So thank you.

LINEHAN: Thank you very much. Other pro-- you were an opponent, right? Other opponents? Anyone who wanted to testify in a neutral position? You wouldn't want to waive closing, would you?

GROENE: What?

LINEHAN: Waive closing?

GROENE: [INAUDIBLE].

LINEHAN: OK. [LAUGHTER]

GROENE: I'm giving him a spreadsheet. But he talked about that option enrollment. That has nothing to do with Ralston. It only has to do with Grand Island Northwest, where their only-- their only state money is option money. But if you're equalized, which Ralston is, that correction of what I said about option enrollment does not affect it. It's a outlier.

LINEHAN: Are you talking about LB677?

GROENE: LB677.

LINEHAN: I know. I know, you're getting--

GROENE: I'm on LB677.

LINEHAN: I know.

GROENE: That's what this bill is.

LINEHAN: I know, but I--

GROENE: He testified on LB677.

LINEHAN: You're getting too far down.

GROENE: What's that?

LINEHAN: You're getting too far down.

GROENE: No, but I have to straighten it out--

LINEHAN: OK.

GROENE: --that he was right. The statement of intent is wrong. I didn't check it.

LINEHAN: I'm sorry, say that again.

GROENE: The statement of intent-- intent is wrong--

LINEHAN: OK.

GROENE: --the way it was written.

LINEHAN: OK.

GROENE: The spreadsheet is correct. That option enrollment factor has nothing to do with-- with Ralston. It has to do with Westside, Grand Island Northwest too.

LINEHAN: Because they're not equalized.

GROENE: They're not equalized because option money is a resource--

LINEHAN: Right.

GROENE: --that goes against equalization.

LINEHAN: Right.

GROENE: His-- his district would get an additional \$1,074,000 in aid with LB67--

LINEHAN: That's perfect because that's just what he said they were short.

GROENE: What's that?

LINEHAN: That's what he said they were short, I think.

GROENE: Yeah, that he would get that much more by the change of the-- of the levy from dollar to 9357.

LINEHAN: What did you say. How much more?

GROENE: You have the spreadsheet. But it was \$1,074,000, a 9 percent increase in state air.

LINEHAN: OK.

GROENE: Ralston, as we talked about, small schools, basically my opinion, should merge, Ralston should have merged a long time ago with Westside or-- it's too small. It-- it would have fit right in to some of the other districts and-- and their property tax base would have been-- Westside would have been perfect because they're getting up to the point they're not getting any state aid. They both have about the same levy, state administrative costs, their cost per student. It's not only small schools that should be merging. Some of these landlocked school districts shouldn't be doing it, too, that are of the larger size. It's just-- same thing with the trophy case in-- in a small town in Nebraska. It's the same thing in a bigger city with Ralston. So anyway, I will get back to LB677. It was a very acceptable bill the last two years. It is still good. It-- it-- it went through the fire where we amended those problems that we caught the first two years after Senator Friesen prioritized it. This is the amendment that we voted on the last two weeks of last year and it got 25-27 votes. I didn't get the vote recorded. But it puts it into place. And the only reason I did, because I'm not taking pride of ownership of my bill. I'm not in

competition, Revenue versus Education. I'm not in Senator Friesen or Briese "verse"-- I'm want every option on a table and we need the best options. And if something in-- in my amendment fits into the final package, it should be on the table, and in order to do that I'm using procedure, that correct procedure to do it, to bring it into this committee.

LINEHAN: OK.

GROENE: You can bring any amendment you want--

LINEHAN: All right.

GROENE: --as long as it's related to revenue.

LINEHAN: OK.

GROENE: If you look at my amendment, half of it is Chapter 77, Revenue.

LINEHAN: OK.

GROENE: The other half is 79, Education. It's the same with Senator Briese's and the same with Senator Friesen's. They have the same situation. It could have went to either what-- the-- the subject matter could have went to either committee.

LINEHAN: OK. We're-- we're-- we're not going to vote. We're not "execing" tonight,--

GROENE: No, I know. but--

LINEHAN: --so.

GROENE: --just for the cameras and for the-- for the-- I'm just offering an amendment. Throw it in the trash.

LINEHAN: OK.

GROENE: Don't vote for it.

LINEHAN: I-- I'm impressed with the press sticking out with us here tonight too. That's very impressive. OK. Are we done?

GROENE: Yes.

LINEHAN: Letters for the record.

GROENE: Any questions?

LINEHAN: Not tonight. [INAUDIBLE]. Oh, do we have letters for the record? Oh, thank you. We have no proponents. Liz Standish for the Lincoln Public Schools is an opponent and Deborah Levitov. I don't know who [INAUDIBLE]. And none in neutral. And with that, we'll close the hearing on LB677. Thank you.

